

INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

**“THE IMPACT OF ECONOMIC PARTNERSHIP AGREEMENTS
ON REGIONAL INTEGRATION IN AFRICA: A CASE STUDY OF
EAC 2001 -2008”**

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DECLARATION

This dissertation is my original work and has not been presented for a degree in any other University.

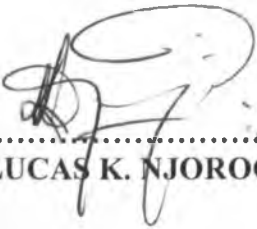


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DEDICATION

I would like to dedicate this work to all my family members namely Dad Meshack and Mum Isabelle Odera who through God's grace brought me up and educated me. To my siblings, Ben, Anne and Flo for having been such good partners. To my best half Morris M'Mbetsa and best friends Angelica Mupa and Audrey Luvuno for the support and dedication you gave me through my course work. To all, many thanks and God's blessings to you.

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Acronyms and Abbreviations

ACP	African Carribean and Pacific States
AEC	African Economic Community
AU	African Union
COMESA	Common Market for Eastern and Southern Africa
CU	Customs Union
EAC	East African Community
ECA	Economic Commission for Africa (UN)
EPA	Economic Partnership Agreements
ESA	East South Africa
EU	European Union
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	General System of Preferences
IMF	International Monetary System
LDC	Less Developed Countries
MFN	Most Favoured Nations
NTBs	Non-Tariff Barriers
OECD	Organization for Economic Development
PTA	Preferential trade Area
REI	Regional Economic Integration
RIAs	Regional Integration Agreements
RTAs	Regional Trade Agreements
SADC	Southern Africa Development Cooperation
SSA	Sub-Saharan Africa
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank
WTO	World Trade Organization

ABSTRACT

The research and preparation of this study was prompted by the popularity of the concept of Economic Partnership Agreements (EPAs) between regionally integrated organizations despite evidence of failure to witness any positive success in the integration initiatives in Africa. The study sought to examine the influence of EPAs on Regional Integration in Africa with a case study of East African Community between 2001 and 2008. It sought the meaning and impact of EPAs on various sectors of the economy and it emerged that there are differing benefits of partnerships across the countries.

Data and information will be gathered through interviews with stakeholders and secondary data. Findings will be analysed and will provide for more knowledge in the field of regional integration and offer possible solutions to challenges faced by partner states in an endeavour to entering an EPA. The recommendations that have emerged in the study form a suitable basis for EAC to make policies that will foster positive growth in the economies especially the trade sector.

The study concludes in regard to the study objective and hypotheses that EPAs influence stronger regional integration. It also notes that EPAs could destabilize regional integration unless states come up with ways of managing interests in order to achieve their integration goals such as political federation. This has also been demonstrated by theoretical, economic and policy forces which have influenced the partnership or disunity of the EPAs.

Chapter One: Introduction

1.0 Background

Regional integration initiatives in East Africa began in the 19th Century as a consequence of European settlement in its colonies in the East African countries. The increased interest on the link between economic performance and good governance has shown a turning point of African states from issues of political nature to the economic structure of states.

However, many countries in Sub Saharan Africa are still heavily reliant on agricultural produce which result in poor economic returns due to the nature of the markets they operate in. To help alleviate this problem, countries merge from the same geographical region so that they can achieve objectives as a block and therefore enhance their productivity.¹

Charles Kupchan defines a region as one that is comprised of states with a shared sense of communal identity, though the source of this mutual identity may vary among different regions.² States cooperate with the view of perpetuating their own national interest. These interests include the pursuit of economic growth and stability, cultural and political liberation, state security and general development of the nation. The state can only realize its interests by ensuring that the market

¹ William Wallace, *Regional Integration: The West European Experience*. (Washington DC, : Brookings Institutions, 1994)

² Edward D. Mansfield and Hellen V. Milner, eds. *The Political Economy of Regionalism* (New York: Columbia University Press, 1997) pp3-4

for its produce is created and expanded considerably in the partner states, technological transfer is encouraged and skilled labour is exchanged.

The initiative to integrate the East African region was started by the British colonialists prior to 1960. The British argued that sufficient development of the region could best be achieved through the process of integration.³ Regional integration can therefore be regarded as the process in which states forgo certain roles with regard to certain key foreign and domestic functions and policies independently of each other, seeking instead to make joint decisions or to delegate the decision-making process to a new central organ, usually a regional or global structure. The integration processes are difficult and call for patience; with political affinities and cultural identities playing important roles alongside economic interests.

Karl Deutch contends that, Integration is a process of attitudinal change that creates or culminates in such feelings of “we-ness”⁴. Regional integration arrangement is a preferential (usually reciprocal) agreement among countries that reduces barriers to economic and non-economic transactions.

³ Adar & Ngunyi: *The Politics of Integration in East Africa* in Oyugi, Walter O., *Politics and Administration in East Africa*. (Nairobi: Masaki Publishers, Konrad Adenauer Stiftung, 1992) pg 395

⁴ Karl Deutsch et al, *Political Community and the North Atlantic Area: International Organization in the Light of Historical Experience* (Princeton, N.J.: Princeton University Press, 1957) p 6

Most political actors argued that regional cooperation – or regionalism was conducive to economic development of individual member countries.⁵ Where trade between member countries and non member countries is expected to continue under regional arrangements, internationally determined terms of trade rather than regionally determined are likely to prevail within the trading bloc.

One of the terms of trade that has taken route in the international arena is the Economic Partnership Agreements entered between regional blocks. Economic Partnership Agreements (EPAs) is a scheme introduced by EU in June 2000, so as to create a free trade area (FTA) between the European Union EU and Africa, Caribbean and Pacific (ACP) countries, which was to take effect in January 2008. They are essentially free trade agreements that will overhaul the entire way in which African countries' trade relations are structured with their largest trading partner the EU.

Past ACP-EU trade cooperation, which has primarily been built on non-reciprocal trade preferences has not delivered the results expected. Although it has granted duty free access for nearly all products, it has not prevented the increasing marginalization of the ACP in world trade. The Lome Conventions (1-IV, 1975-2000), that granted ACP countries preferential market access to the EU, did not reach their goal to integrate ACP countries into global markets and to diversify their export base. They expired because they were incompatible with WTO

⁵ Ulrich Hiemenz and Rolf J. Langhammer. *Regional Integration Among Developing Countries: Opportunities, Obstacles and Options* (Germany: Teubingen, Westview Press, 1990)

principles of Most Favoured Nation (MFN) and non-discrimination that forbids preferential treatment to selected countries and apply favourable conditions to all trading partners.

Trade preferences can provide a competitive edge and opportunities especially if the beneficiary country seizes these opportunities but they do not necessarily generate trade. A more comprehensive approach is needed which allows the building of new markets, strengthening trade rules, addressing supply side constraints and to foster product and market diversification in ACP countries.

Economic Partnership Agreements are an instrument to achieve these objectives. EPAs are essentially free trade agreements, which will overhaul the entire way in which African countries' trade relations are structured with their largest trading partner the EU. They have the objective of reducing and eventually eradicating poverty consistent with the objectives of sustainable development and gradual integration of the ACP countries into the world economy.⁶

EPAs operate within the precincts of regional organizations and according to Rodney, economic partnerships often lead to economic interdependence and enhanced mutual commitment.⁷ The EAC customs union will provide a

⁶ Farrell Mary, "A Critical Path Towards Regional Integration and Liberalization – The Thresholds", UNU/CRIS Occasional Papers 0-2003/2

⁷ J.S. Nye, Peace in Parts: Integration and Conflict in Regional Organizations (Canada: Little Brown & Company Ltd, 1971) pg 16-17 see W. O. Henderson. 1962. *The Genesis of the Common Market* (Chicago: Quadrangle) p.159

momentum for the negotiations with the EU for it will give lead to a larger market and encourage the expansion of their intra-regional trade.⁸

The new arrangement will succeed the trade provisions of the Cotonou Agreement signed by the ACP countries and the European Union in 2000. This was set to be enforced in January 2008 but has yet to be effected. There are serious concerns raised about the impact the proposed EPAs framework, that the EU is currently pushing for in negotiations will have on East Africa's efforts towards regional integration, economic development and poverty eradication.

1.2 Problem Statement

Emergence of new technologies and expansion of trade regimes has accelerated the speed of globalization. Never in human history has the chance to make McLuhan's "global village" a reality been closer.⁹ This is because trade between the EU and ACP countries has made markets become more open and inclusive.

Many states in Africa, East Africa included have been compounded with the prevalence of political conflict with the result of weak and impoverished economy. Modern Africa is hardly competitive in trading with the rest of the world. It therefore calls for intensified action to meet the fierce competition that marks the new economic reality in the world.

⁸ Paul R. Krugman and Maurice Obstfeld, *International Economics, Theory and Policy*, 6th ed. (London: Elm Street Publishing Services, 2003) pg 121

⁹ Alioune Sall, *The Future Competitiveness of African Economies*, (Sankore: Karthala, African Futures, 2000) pg 13

Economic Partnership Agreements and regional integration can be regarded as one of the tools that are essential in finding solutions to Africa's economic problems. Regional integration has made Africa enjoy extensive economic space and the countries are better prepared to trade with the rest of the world with fewer hitches. The revival of interest that members of the East African Community are showing in their regional, and interregional groupings should give their members the possibility of taking advantage of economies of scale so as to enable it participate in the globalization of trade and international investment.

The purpose of the study is to examine the place of EPAs between the EU and EAC in the enhancement of both bilateral and multilateral trade. This trade arrangement should ensure mutually beneficial market access among the countries involved. Given the complexities involved in trade negotiations, coalition building is an important attribute of the process to help build the necessary clout needed for advancing common interest. Regional groups are instrumental in building such clout, which ensures maximization of benefits associated with the emerging trade arrangement.¹⁰

1.3 Objectives of the Study

- To identify and describe the link between Economic Partnership Agreements and regional organizations.

¹⁰ T.A.Oyejide, African in the Negotiation of Economic Partnership Agreements with the European Union. Paper prepared for AERC on *African Imperatives in the New World Order* – Dissemination Workshop 16-17 November, 2004, Dar-es-Salaam, Tanzania

- To examine the benefits and challenges that are likely to accrue from the management of Economic partnership agreements between the EAC and EU.
- To analyze the role of EPAs on East African Customs Union viewed against the background of other trade patterns.

1.4 Justification

In as far as regional integration is concerned; the East African Community is in place. From the academic perspective, the examination of the role of Economic Partnership Agreements on regional organizations can provide useful insight with a view to understanding how EPAs can enhance trade of the East African countries through regional integration, its implications on international trade, implementation of international procedures and the challenges posed by partnership with the EU.

From the policy perspective, the process of forming and fast tracking the East African Customs Union is basically an integration process. The EACCU has had negotiations with the EU to enter into Economic Partnership Agreements; some of the finding to the study could be put to use. The study is timely in the wake of increased trade in the region since East Africa has been trading with the European Union since the 1970's ¹¹.

¹¹ see Ghanian Cronicle 26 November, 2007, Joseph Coomson, *EU Fragmenting Regional Blocks with EPAs*,

LITERATURE REVIEW

This literature will shed light on the different aspects of the “partnership debate.”

A regional economic organization can be referred to as an organization based on formal agreement among governments, possessing diplomatic forums and assisted by an associated international bureaucracy. There has been an argument that regional organizations involving economic integration are the best setting for functional cooperation that can make states less prone to exercise their sovereign power for violent conflict.¹² This may not necessarily be true because trade and economic ties are insufficient to prevent states from going to war. But economic interdependence enhances mutual commitment and facilitates higher degrees of conflict control.¹³

The initiative to integrate East Africa was started by the British Colonialists prior to the 1960's. The main objective of the Treaty signed in 1967 was “to strengthen and regulate the industrial, commercial and other relations of the partner states.”

¹⁴The British argued that successful development of the region could best be achieved through the process of integration. An impressive level of integration has been created among the members of East African common market though the basic structure of East African integration was created in the womb of British colonial rule. A Treaty for the establishment of the East African Community was signed on 30th November 1999 and entered into force on 7th July 2000.

¹² See Stanley Hoffmann, *Gulliver's Troubles* p.43

¹³ See W.O. Henderson, 1962. *The Genesis of the Common Market* (Chicago: Quadrangle) p. 159

¹⁴ Treaty for East Africa Cooperation, Nairobi, Kenya: Government Printers, 1967, pg 1

The new EAC has proposed a step-by-step integration program that begins with the customs union and subsequently a common market. It has already realized some of its goals such as the establishment of the Ministry of East African and Regional Cooperation in their respective governments to coordinate the development and follow-up on the implementation of regional cooperation policies and programs.

The strategic interests of the East African Region have been taken into account. This includes making the region enjoy extensive economic space and trade competitively at international level. Its key objective is to develop policies aimed at widening and deepening cooperation in all fields for the mutual benefit of its members.¹⁵ Unity of the East African Community has brought it to the “bargaining table” despite it wielding little power.¹⁶ The main challenge in the success and persistence of the newly revived EAC remains the bargaining of the individual partner states’ national interest.

Paul Krugman’s¹⁷ hypothesis of Economic Geographical Model attempts to explain the determinant of regional concentration of economic activity but this has yet to be fully explored. Under assumption of increasing returns to scale, economies of scale and trade cost considerations determine the location of economic activity. The implication of this hypothesis is that regional integration

¹⁵ Article 5 of the East African Treaty

¹⁶ William I. Zartman, *Ripe for Resolution: Conflict and Intervention in Africa* (New Haven: Yale University Press, 1984) pg 24

¹⁷ Paul R. Krugman, *Geography and Trade* (Cambridge: Massachusetts, The MIT Press 1991), p.43

in East Africa could enhance economies of scale by locating a production activity in one location rather than each activity in each country. Regional organizations are attractive in Africa because they “maximize the values of independence, unity and development and avoid the problems inherent both in nationalist isolation and ambitious unification.”¹⁸

Peter Robson¹⁹ infers that small population size and small markets drive African countries to integrate. He says that Africa’s independence and dignity can only be achieved by a United Africa. Coming from their historical experience through colonization and slavery, Africa was divided into small bits of countries lessening their economic bargaining power. African countries were forced to supplement their domestic savings with foreign capital so as to accomplish their development objectives.²⁰

Nye has argued that regional economic cooperation can only survive if all partners make net gains, which are equitably distributed otherwise the result would be over-politicalization of cooperative efforts.²¹ When countries integrate, they exploit economies of scale and take advantage of comparative advantage. Early theoretical work on regional integration emanated from the theory of comparative advantage in international trade. Most developing countries had

¹⁸ William Zartman, *International Relations in the New Africa* (Engelwood Cliffs, N.J.: Prentice-Hall, 1966) p.150

¹⁹ Peter Robson, *Economic Integration in Africa* (London: George Allen and Unwin Ltd, Ruskin House, 1968) pp 11-12

²⁰ Godfrey P. Okoth and Bethwell A. Ogot, *Conflict in Contemporary Africa* (Nairobi: Jomo Kenyatta Foundation, 2000) pg 190

²¹ J.S. Nye, op.cit pg17

small economies. It was therefore felt that import substitution would have a better chance if pursued at regional level. This led to the formation of numerous integration blocs where participating member countries would trade their resources as one.

Even though the bilateral trade of some countries has a distinctive pattern reminiscent of the Heckscher-Ohlin Theorem, in that there are export goods of different factor intensities to different trading partners, there is little say in the theory as to whom these goods will be exchanged. Thus, countries not only export goods in which they have comparative advantage but in which their abundant factor maximizes their utility.²²

The often cited reasons for underutilization of the technical innovation which was not an incentive for export activities, include the economic and social differences between developed and developing countries, which make the cost of development enormous and harsh for the developing countries.²³ Thus an Economic partnership between the EU and EAC is seen as an enhancement of trade and technical innovation especially for the EAC.

Anyang' Nyong'o concurs by saying that, irrespective of the weaknesses of African Economies and whatever practical problems they may confront in trying

²² Ethier J. Wilfred, Elhanan Helpman and J. Peter Neary, *Theory, Policy and Dynamics in International Trade* (New York: University of Cambridge, 1995) pg 55 - 83

²³ Gillis M., et al, *Economics of Development*, Second Edition, (London: W.W. Norton and Company, 1987), pg. 364

to integrate economies which offer very little to each other, a development strategy is still needed for the rational economic management of scarce resources based on the principle of economies of scale. He observes that there is a basic need to establish viable political frameworks based essentially on legitimate political systems for there to be initiatives that lead gradually or cumulatively towards economic integration.²⁴ The argument is that the internal savings of individual countries are often not enough to spur development of their economies hence the need for foreign savings.

According to Mazzeo²⁵, African countries look up to the EU as a model of prestige and economic power. They see it as a necessary condition for their own economic growth and political stability. The initial EAC could not succeed because of poor governance which led to an emplacement of irregular non tariff barrier restriction. The three sovereign states namely Kenya, Uganda and Tanzania had individual national interests that could not be fully achieved within the structure of cooperation and differences were bound to occur. Operational difficulties and Conflict or civil strife in one of the member states led to economic disintegration and eventual collapse of the community.

Mazzeo attributes the collapse to the differences in the distribution of costs and benefits among the member states. There is also suspicion among member states

²⁴ Anyang' Nyong'o P., *Regional Integration in Africa: Unfinished Agenda* (Nairobi: African Academy of Sciences, 1990) p134

²⁵ Mazzeo, D. Problems of Regional Cooperation in East Africa in Patholm, C.P, and R.A. Fredland, *Integration or Disintegration in East Africa* (University Press of America, 1980), pp 150-152

on trade, cattle rustling, border security and security threat. Tanzania and Uganda saw Kenya as a threat in the former East African Community because Kenya had a stronger economic base. Foroutan observed that one of the reasons regional blocs have failed in Sub Saharan Africa is the fear of some countries to be wiped up or their industries swallowed by their more advanced neighbours. Most economic activities of the EAC occurred in or around Nairobi thus Kenya appeared to the other members to dominate the cooperation, with a likelihood of taking over their industries.²⁶ Adar posits that economic integration was designed to achieve an acceptable distribution of the benefits of cooperation between states.²⁷

Axelrod contends that, "the foundation of cooperation is the durability of the relationship. Whether the players trust each other or not is less important in the long run than whether the conditions are ripe for them to build a stable pattern of cooperation with each other."²⁸

For regional blocs to succeed, important aspects of both economic and non-economic preconditions must be fulfilled. This notably includes economic growth and stability, cultural and political liberation, structural stability (peace and security), rule of law, good governance and monetary stability. Regional blocks through the member countries can only realize their interest by ensuring

²⁶ Mazzeo, D. 1980 op.cit pp154-157

²⁷ Walter O. Oyugi, *Politics and Administration in East Africa*. (Nairobi: Masaki Publishers, Konrad Adenauer Stiftung, 1992) pg. 395

²⁸ R. Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984) pg. 201

that the market for its produce is created and expanded considerably in the partner states. There should be creation of a formidable trade bloc that can withstand high competition and participate efficiently in the global market such as forming economic trade partnership with other regional blocs.

Seidman argues that successful integration needs to be backed by essential institutional changes to attain several developments directed to rising productivity and levels of living throughout the entire region.²⁹ The rise of the “new” regionalism is premised on the realization by states that their successful engagement with the global economy depends on the strength and viable large markets that can be actualized in the regional community than in the state.

Economic integration may be formed at different levels and its objective is to benefit from trade creation, economies of scale, product differentiation and efficiency gains. It is expected to reduce vulnerability to external shocks induced by fluctuations, instability and uncertainty in the rest of the world.

The effect of regional integration is modeled in terms of Trade Standard theory, which asserts that free trade is superior to all forms of trade. The argument is that it leads to improved welfare as long as the trade arrangement leads to net trade creation. It explains the difference between trade creation and trade diversion.

²⁹ A.W. Seidman, *Problems and Possibilities for East Africa Economic Integration* (Boston: ACAS Publishers, 1970), pg. 41

Trade creation occurs when a member switches from domestically produced export goods (consumption) to imported goods produced more cheaply. Trade creation enhances welfare of states while trade diversion reduces welfare.³⁰

Trade has the potential to act as a powerful mechanism for development and economic growth. Trade is basically the process of moving resources; goods, capital and labour between regions and sectors that are likely to produce gains and losses from integration and development significantly accentuated by different economies of scale. It entails both bilateral and multilateral exchange of resources.

Free trade and the removal of barriers to commerce are at the heart of modern interdependence theory. The rise of regional economic integration is inspired by the belief that the conflict between states is reduced by creating a common interest in trade and economic collaboration amongst members of the same geographical region.³¹ This means that as a bloc, the trading member partners concentrate in enhancing their regional economic base rather than engaging in political unrest and civil strife. The insecurity only makes them succumb to poverty instead of economic development.

Trade has the promise to eradicate poverty among millions of people in a 'globalized' world. Yet the structure and content of current trade negotiations

³⁰ A.W. Seidman, 1970. op.cit. p.41

³¹ Mitrany 1996 op. Cit. Pg 22

between the European Union and African, Caribbean and Pacific countries raise concerns about the impact Economic Partnership Agreements will have on development. The World economy offers several opportunities for creative partnership and seizing these opportunities provides the rationale for international cooperation. Failure to do so implies an opportunity lost in terms of benefits foregone.³² The developed countries thus perceive it as foolhardy if developing countries do not seize the opportunity to enter into EPAs with them to enhance their economic standing.

According to Krugman,³³ the EAC should anticipate enhanced economic growth through its partnership with EU due to dissemination of technological and business skills because both countries differ in endowments such as culture, skills and resources. Economic interdependence cuts both ways. Under favourable conditions it helps everyone; under unfavourable conditions it hurts everyone. The “globalization promise may exceed its peril, but the peril is still real”.³⁴ Recent studies by the World Bank indicate that in general, increased global trade has resulted in a reduction in absolute and relative poverty levels for the world as a whole.³⁵

³² J. Bhagwati, J. *The New International Economic Order: The North-South Debate* (Cambridge: MIT Press, 1977) pg.5

³³ Paul R. Krugman, *Strategic Trade Policy and the New International Economics* (Massachusetts: MIT, 1986) P.84

³⁴ P. Samuelson, *Economics* (New York: McGraw Hill, 1980) pg 34

³⁵ Dollar, David & Paul Collier, *Globalization, Growth and Poverty: Building and Inclusive World Economy* (World Bank: Oxford University Press, 2001) pg 25

The European Union is a good example of an economic integration engendering closer economic and political cooperation in a region bedeviled by national conflicts. Its basis lay on actual establishment of a common market with a common currency; the euro and a European Central Bank. European cooperation was not purely economic but one that was envisaged to bring peace and security in the region.

Robert Schuman posits that the cooperation was “to make war between France and Germany not only unthinkable but materially impossible”.³⁶ From its very conception, the European Single Market was largely a political arrangement. Intra European trade grew steadily in the 1980’s before many of the measures of the Single European Act were implemented.

Newfarmer posits that while domestic policies and obstacles matter, inequities in the world trading system also puts developing countries at a disadvantage.³⁷ Agriculture is central to the development of developing countries. However, protection facing developing country exporters in agriculture is four to seven times higher than in manufacturing in the Organization for Economic Co-operation (OECD) countries. Tariff peaks against products from poor countries are particularly high in developed countries and when prices fall the burden of adjustment is thrust upon the LDCs.

³⁶ G. Stubbs, G and G. Unerhill (eds), *Understanding the Global Order*. (Oxford: Oxford University Press, 1999) pp185-186

³⁷ Richard Newfarmer, *Trade, Doha and Development; A Window Into the Issues*, (World Bank, November 2004) p16

East Africa Community has had a long history of economic relationship with the EU since the late 1970s. The EU has been a major aid provider while the ACP countries have been heavily reliant on EU markets for their exports.³⁸ They view the liberalization of markets and removal of subsidies as the correct strategies for achieving development.³⁹

Charles Soludo posits that nowhere else in Sub Saharan Africa has growth tragedy been more dramatic than in areas of trade and industrialization. Africa has mainly concentrated on a few primary commodities with highly volatile terms of trade, despite four decades of quantum development assistance and preferential trade arrangements such as the EU-ACP Lome and Cotonou agreements.

EPAs are to replace the non-reciprocal trade preferences that the EU had extended under the preceding Lome agreements. The agreements were intended to assist the ACP countries easily access the world economy in order to make their goods and services more competitive, economic and hence reduce poverty. In a speech read by Peter Mandelson, the EU Commissioner for Trade on January 20th, 2005, he described EPAs as ‘potentially crucial, hugely positive contribution that Europe can and must make to trade and development’ in Africa.⁴⁰ He perceived

³⁸ see Stephen Hurt: *Cooperation and Coercion? The Cotonou Agreement Between the European Union and ACP States and The End of the Lome Convention*, Third Quarterly (University of Birmingham: Taylor and Francis Ltd, 2003)

³⁹ S. Gill op.cit p. 68

⁴⁰ see Business Daily, Wednesday January 30, 2008, pg.18

Europe, which is 'renowned' in international trade as the tool that will save Africa from its economic hardship.

Fredrick Taylor views EPAs as part of the economic blueprints designed to radically structure African economies. These are part of the Structural Adjustment Programs, which embody the liberal economic consensus of the northern developed democracies that Africa's future economic success depended on the pursuit of an export-oriented strategy of economic growth that systematically dismantled all forms of governmental intervention in national economies.⁴¹ Forces leading to economic and political integration are embedded in the modern economic system and tend to be self-reinforcing.⁴²

Both the EU and EAC countries affirmed their recognition of development needs for the Sub Saharan African region and their commitment to ensure that EPA is an adjunct for development that will promote regional integration and aid the integration of East Africa into the global economy. The EU is to guarantee duty free and quota free market access for goods exported by the EAC states to the EU markets with transitional arrangements for rice and sugar.⁴³

EPAs are intended as part of financial sector reforms in Africa to enhance trade and economic growth in a well functioning financial system under normal

⁴¹ See Stephen K. Commins. ed. *Africa's Development Challenges and the World Bank: Hard Question, Costly Choices* (Boulder: Lynne Rienner, 1988) pg 15

⁴² A.J.R. Groom and Paul Taylor, *Functionalism: Theory and Practice in International Relations* (London: University of London Press Ltd, 1975) pg34

⁴³ The Courier, *Special Issue: Cotonou Agreement*, September 2000, pg.6

circumstances but financial sector reforms are largely country-specific. Countries in SSA are far from homogenous hence introduction of financial reforms in one country should be expected to be different from another's.

From the literature it is obvious that different scholars treat this subject differently. It will be interesting to explore this issue to determine whether or not EPAs have an impact on regional integration and its trade patterns. The data collected in this research will be helpful in providing important perspectives on this topic from some of the main actors.

1.6 Research Hypothesis

The research study is premised on the following assumptions:

- Economic Partnership Agreements promote economic growth
- Economic Partnership Agreements can impede regional integration
- The success of the East African Customs Union is attributed to its commitment to partner with EU

1.7 Theoretical Framework

A number of theories have been advanced with regards to regional integration. Ground theories of regional integration come from the field of International Relations which are diverse in approach and application. The main concerns of the study are the process of eliminating restrictions on international trade, payments and factor mobility, which results in the uniting of two or more national

economies in regional trading agreements and the process by which trade agreements are arrived at between the trading partners.

To maintain this order⁴⁴ every institution must adopt to the environment (mainly capitalism) where there is measurable and acceptable relation, goal attainment, integration and transmission of values from one generation to the next. The success of the integration improves when power is asymmetrically distributed among states participating in regional integration and they are jointly satisfied.⁴⁵

The Static Economic Theory of regional integration arrangements emanates from contributions to the customs union issue by Viner (1950) and Meade(1955). It gives both empirical and analytical varieties of quantitative studies investigating customs unions and free trade areas.

Although regional integration arrangements might be trade-creating, they might also be trade-diverting. This may leave their net impact on trade and economic welfare for member countries and parent trading blocs uncertain. The Static Economic theory has mainly served to caution policy makers about the potential pitfalls of entering into an economic cooperation agreement to promote intraregional trade, investment and even cross-border movements of labour and human capital. Customs unions and free trade areas are expected to result in

⁴⁴ see R.F.Nemani, *Modernization and Industrialization: Theoretical Framework for the Transition to Industrial Capitalism*, October 1999

⁴⁵ Eifird, Brian, and Gaspare M. Genna. 2002. *Structural Conditions and the Propensity for Regional Integration: European Union Politics* (London: Europa Publications Ltd, 2002) pp 293-313

cessation of trade (in homogenous goods) with non-member countries. Where trade between member countries and non-member countries is expected to continue under a regional integration arrangement, internationally determined terms of trade rather than regionally determined terms of trade are likely to prevail within the trading bloc, limiting the occurrence of positive production-related and consumption-related trade creation effects but not negative tariff revenue-related and resource allocation-related trade diversion effects.

The study draws from historical experience of various states that have undergone the integration process. This is important in order to establish whether integration has always manifested dynamics of economic and political harmonization in trade and identify commonalities that enable conclusions to be drawn.

1.8 RESEARCH METHODOLOGY

The research employed both primary and secondary data. The primary data was sourced from various organizations and interviews with twenty personnel involved in Economic Partnership Agreement negotiations especially the Government of Kenya Ministries acquainted with the research problem, namely Trade, East African Cooperation and Regional Cooperation and Foreign affairs as well as institutions of higher learning. The information was subjected to qualitative analysis and interpretation, which allowed the researcher to draw inferences that will meaningfully contribute to the body of knowledge in the field of Economic Partnership of regional blocs.

Secondary data was obtained from published texts, journals, magazines, newspapers and Internet. Emphasis was put on published data from libraries of institutions of higher learning and organizations in Kenya.

1.9 Scope and Limitations of the Research

The study approaches the integration of the East African countries into a regional bloc and the prevailing negotiations with the European Union for the establishment of Economic Partnership Agreements. Most of the interviewees were drawn from Kenya with a few from Uganda and Tanzania but Rwanda and Burundi who are also members of the East African Community are exclusive in this study. Time available before the final report on the research, as well as financial resources were a constraint because of inability to access various persons and materials when needed.

1.10 Definitions

A region is defined by Zartman⁴⁶ as a large land area that has geographic, political or cultural characteristics that distinguish it from others. The word integration denotes the bringing together of parts into a whole.⁴⁷ In economic terms, according to Mutharika⁴⁸ it would imply, the coordination of economic activities within a country for the purpose of enhancing the development of that particular

⁴⁶ William Zartman, *International Relations in the New Africa* op.cit p.50

⁴⁷ Bela Belassa, *Theory of Economic Integration* (London: Longman, 1961) pp 254

⁴⁸ see B.W.T. Mutharika, *Towards Multinational Economic Cooperation in Africa* (New York: Praeger Publishers, 1972)

country. According to him, the process of economic integration will, at various stages embrace some aspects of economic cooperation efforts.

Johan Galtung defines integration as, “the process where two or more actors form a new centre. He identifies three types of integration as territorial, organizational and associational, which he says may occur independently or at the same time. When the process is completed, the actors are said to be integrated.”⁴⁹

Professor Haas defines integration as the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations, political and economic activities towards a new and larger centre whose institutions possess or demand jurisdiction over the pre-existing national states.”⁵⁰

This is further advanced by Balassa’s definition of economic integration as the abolition of discrimination between economic units belonging to different national states, which range from a free trade area to a total economic integration.⁵¹

The term ‘economic integration’ denotes in its restrictive form, increased trade and factor flows between neighbouring countries as a result of trade liberalization

⁴⁹ Johan Galtung, *A Structural Theory of Integration*. Journal of Peace and Research. Vol 5 and 4, 1968

pg 377

⁵⁰ ibid

⁵¹ see Bella Ballasa, *Towards a Theory of Economic Integration*, 1966 in Miguel Wloneczek, ed. *Latin American Economic Integration* (New York: Praeger, 1971) p.25

or coordination and harmonization of economic policies. It also refers to the establishment and development of ties between countries that may or may not be geographically linked. The member countries need not be from the same region or neighbourhood. For example the South Africa-Eu Trade and Development Cooperation Act and the EU-ACP Economic Partnership Agreements. There is a lot of justification for most countries to be part of regional economic integration, mainly because it is possible for member states to increase their productive capacity and efficiency if the region's mutual economic interdependence is increased.

1.11 Organization of the rest of the dissertation

Chapter One deals with the Background to the study; the research methodology concepts; and Literature Review. Chapter two focuses on the nature, characteristics and integration process of regional economic blocs. Chapter three deals with the background, achievements and challenges of the East African Customs Union in Partnership agreements with the European Union. Chapter four makes a critical analysis of data collected with the stated hypotheses and theoretical framework in mind. Chapter five draws conclusions, recommendations and areas for further research.

Chapter Two: Regional integration: Benefits and challenges

2.0 Introduction

Development is the key challenge facing human society. The essence of economic development is to improve the quality of life yet most of the changes in technology in recent years have not resulted in better living conditions for most of the world's population.

This chapter seeks to address the process of integration in East Africa and how it affects its trade relations internationally given the existing political and economic weaknesses. It discusses concepts of regionalism and integration, integration efforts in Africa, benefits and consequences of integration, and highlights the key areas with regard past and current trade experiences of regional integration in Africa.

2.1 What is a region?

Given suitable economic, cultural, social and geographical conditions, every area on earth can be a region and it can simultaneously belong to different regions. The central characteristics of regions are identity, unity, delimitation and acquisition of regionality at different levels of region-ness. In order to have an in-depth study of regional integration and development, it is necessary to classify the concept of "regions".

Wang Huijiong⁵² classifies regions into six categories. A region could be classified into the economic regional pattern based upon geography such as the North and South of the world where the term North connotes the highly developed countries based upon the Northern latitude of the earth while the south refers to the less developed ones respectively. Regions are classified upon hierarchical administrative units (nation, province, village), function (Free Trade Zone), geography (East Africa, Middle East), political-economic (EU and AU) or topography, wealth and even language.

Countries that are geographically apart but have a common identity such as culture, language, religion or ethnic background can form a regional partnership. Benjamin Cohen asserts that countries that collectively rely on one currency (such as the Euro) are referred to as a currency region.⁵³ Regions could also be linguistic-oriented. For instance, most of West Africa countries are Francophone based because they were former colonies of France. Likewise, East African countries are English speaking due to the British Commonwealth influence. Regionalization is part of the process of globalization. The integration of economic activities among countries is one of the major concerns of the modern world whose further aim is poverty eradication and uplifting the living standards of the majority of the world's population.

⁵² Wang Huijiong, *Globalization and Regional Development in Multilateral Cooperation for Development in the Twenty-First Century*: Training and Research for Regional Development, United Nations Centre for Regional Development 1993, pg34-36

⁵³ Edward D. Mansfield and Hellen V. Milner eds. *The Political Economy of Regionalism* (New York: Columbia University Press, 1997) pp3-4

Concept of Regional Integration

Integration and regionalism are concepts that are multi-dimensional with no definite meaning, thus there is always need to examine how the concepts are used in specific context. But with regard to defining regionalism, the key determinant is the interactions within a region much more than the interactions between entities not constituents to a region.

Integration may thus occur through consensus or coercion. Integration by consensus occurs when members retain their cohesiveness due to widely shared values and general agreement about the system's framework, in terms of culture, language, history, territory or trade. The assumption as the adage goes "birds of a feather flock together", is that people who share a common identity, economic and political loyalties have a lot to gain in terms of development than those separated. In this regard, members of the East African community are likely to retain their cohesiveness due to widely shared values.⁵⁴

Regional integration demands the will to share power not only between states but between national states and regional institutions.⁵⁵ It therefore follows that Regional Integration brings with it inter-dependence of the partner members of the regional bloc. The integration process has been quite slow in Africa. This has led to the realization that its objectives have not had an impact globally. To attain

⁵⁴ see George L. Alexander, Holsti R. Ole and Siverson M. Randolph, eds., *Change in the International System* (Boulder, Co: Westview Press, 1980), p.31

⁵⁵ Makumi Mwangi and Okello Oculi, eds, *Rethinking Global Security: An African Perspective?* (Nairobi: Heinrich Boll Foundation, 2006), p20

economic development in the global world today calls for enhanced regional integration in most countries.

But to counter this, weak vulnerable societies and communities are not likely to favour schemes of economic or political integration if they predict that their implementation will lead to extensive foreign penetration, inequitable distribution of costs and benefits and submerging of local lifestyles.⁵⁶ Bela Ballassa contends that “what is good for the whole is not necessarily good for each of the parts of integration” and therefore integration cannot be treated wholly as a good thing.

2.2.1 Regional Integration Agreements

Ted Taylor⁵⁷ asserts that a Regional Integration arrangement is a preferential agreement among countries that reduces barriers to economic and non-economic transactions. It allows members to set policies especially commercial ones towards non-members. Deep integration is the inclusion in regional arrangements of liberalization commitments that go far beyond multilateral agreements. Commitments in areas such as investments, intellectual property rights, trade facilitations and standards at a regional level help reconcile divergent national practices, which can create supranational implementation mechanisms. It has the potential to impart credibility to trade reforms and alleviate constraints to supply and trade development.

⁵⁶ Karl W. Deutsch et al, *Political Community and the North Atlantic Area: International Organization in the Light of Historical Experience* (Princeton, N.J.: Princeton University Press, 1957) p.215

⁵⁷ Ted Taylor, *Approaches and Theory in International relations* (London: Longman, 1961) pp254

It is in the economic realm that the foundations for integration are usually sought and in that realm trade, labour flows and investment are usually the primary foci of attention. According to Leon Lindberg states forgo the desire and ability to conduct foreign and key domestic policies independently of each other, seeking instead to make joint decision or to delegate the decision-making process to a new central organ. It is the process whereby political actors in several distinct settings are persuaded to shift their expectations and political activities to a new centre.⁵⁸

Lyakurwa et al⁵⁹ classifies integration into five levels. The first is the Preferential Trade Agreements (PTAs) in which tariffs among member countries are reduced relative to those on trade with non-member countries. The second level involves the elimination of tariffs and quotas on trade of goods originating within members of the Free Trade Area (FTA), but each country applies “rules of origin” (retention of a country’s restrictions and tariffs) to implement the preferential trade arrangement. The third level involves the establishment of a Customs Union in which members impose a common external tariff (CET) on trade with non-member countries. The fourth level is a Common Market where there is free movement of resources within the members but there are restrictions with non-member countries. The final level is the Economic Union in which major economic policies such as fiscal, monetary and industrial are coordinated. This classification is hierarchical with each level embracing the one before it.

⁵⁸ Leon N. Lindberg, *The Political Dynamics of European Economic Integration* (Stanford: Stanford University Press, 1963) pg 6

⁵⁹ W. Lyakurwa, N. Ng’eno and W. Kennes, Regional Integration in Sub-Saharan Africa: A review of experiences and issues, 1997 In A. Oyejide et al, *Regional integration and trade liberalization in Sub-Saharan Africa*: (London: Macmillan Press, 1997) pg 13

2.3 Phases and goals of the African Economic Community

The drive for regionalism in Africa is grounded on the conviction that most individual countries can accelerate economic growth and development by first overcoming demographic and economic limitations. Regionalism can help overcome the limitations of small internal markets thus the concept of a stand-alone-nation-state backed by rigid adherence to national sovereignty is fast disappearing in the current world.

Fostering intra-Africa trade and unifying each regional marketplace is the pillar of almost all integration schemes. Currently Africa lacks a foundation for economic integration similar to that present in Europe during the 1950's and 1960's when French agriculture and light manufacturing provided a good complement to German heavy industry.⁶⁰ Most African countries lack the income levels and structural complementarities that could generate large gains from regional specialization within or across industries.

During the 1980's all independent African states were enjoined to take necessary steps to strengthen existing sub-regional economic communities. This was to promote co-ordination and harmonization among the groupings that led to the gradual establishment of the African Economic community. African Economic Community oversees under its treaty the various ancillary protocols on trade,

⁶⁰ A.M. Williams, *The European Community: The Contradictions of Integration*, (Oxford, UK: Blackwell, 1991) in Murphy, B. Alexander, *Economic Regionalization and Pacific Asia*, *Geographical Review*, Vol. 85 No. 2, April 1995 pp 135

customs, special treatment for certain countries, popular participation, dispute settlement and sectoral and infrastructure development. International trade theory asserts that; trade provides an avenue to exchange surplus national production for the products of other countries. According to the theory, international trade contributes to the welfare of trading partners and the basis for trade is due to underlying differences among states. It encourages resource allocation based on perceived comparative advantage and is instrumental to economic growth. It also provides welfare gains even to countries at an absolute disadvantage.⁶¹

There are five phases and goals of the African Economic Community that help in the integration effort of African states. The first phase and goal of the AEC is to strengthen regional economic communities and establish them where they do not exist. In the second indicates that there should be gradual harmonization of policies and implementation of multinational programs in all economic sectors – particularly agriculture, industry, transport, communications and energy. The third phase is the consolidation of free trade zones and customs union through progressive elimination of tariffs, non-tariff barriers and other restrictions to trade and adopting common external tariffs.

The fourth phase is the finalization and harmonization of policies that should result in the free movement of people with rights of residence and establishment

⁶¹ Bruce Rose-Larson et al eds. *Assessing Regional Integration in Africa*, Addis Ababa: ECA Policy Research Report, 2004 p.81

among the regional economic communities. The final phase is the realization of the vision of the AEC with complete economic, political social and cultural integration and with common structures, facilities and functions, including a single African Central Bank, a single African currency, a pan-African parliament and a pan-African economic and monetary union.⁶²

2.3.1 Examples of integration

2.3.1.1 Members and objectives of Africa's Regional Economic Communities, 2001

Table 1

Community	Members	Objective	Current Status
Arab Maghreb Union UMA	Algeria, Libya, Mauritania, Morocco, Tunisia	Full economic union	Free trade area not achieved, but conventions in force for investments, payments and land transport -Integration moving slowly since 1995
Common Market for Eastern and Southern Africa - COMESA	Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe	Common market	<ul style="list-style-type: none"> • Free trade area among nine members achieved in October 2000 • Customs Union expected by December 2004 • Criteria set for macroeconomic policy convergence.

⁶² Assessing regional Integration in Africa, (Addis Ababa: Economic Commission for Africa, 2004) pg 172

Community of Sahel-Saharan States – CEN-SAD	Benin, Burkina Faso, Central African Republic, Chad, Djibouti, Egypt, Eritrea, Gambia, Libya, Mali, Morocco, Niger, Nigeria, Senegal, Somalia, Sudan, Togo, Tunisia	Free trade area and integration in some sectors	Study on feasibility of free trade area just launched.
East African Community (EAC)	Kenya, Tanzania, Uganda *(Rwanda and Burundi)	Full economic union	Significant progress on free trade area. Customs union expected by 2004-06
Economic Community of Great Lakes Countries	Burundi, Democratic Republic of Congo, Rwanda,	Full economic union	Preferential trade arrangements signed. Integration at a standstill since 1994
Economic Community of West African States (ECOWAS)	Benin, Burkina Faso, Cape Verde, Cote d'ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo	Full economic union	Tariffs removed on unprocessed goods Full elimination of tariffs on industrial goods not yet achieved. Second monetary zone in progress Peace and security mechanisms in place Macroeconomic policy convergence in place
Intergovernmental Authority on Development (IGAD)	Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, Uganda	Full economic union	Multilateral programs elaborated in key priority areas (agriculture and environment, political and humanitarian affairs, and regional economic cooperation, including physical

			infrastructure projects) Intra and interstate conflicts have slowed down progress
Mano river union (MRU)	Guinea, Liberia, Sierra Leone	Multisectoral integration	Training institutions created Programs elaborated in some sectors Political issues have slowed down progress
Southern Africa customs union (SACU)	Botswana, Lesotho, Namibia, South Africa, Swaziland	Customs union	Customs union achieved as well as monetary agreements among four members except Botswana
Southern Africa Development Community	Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe	Full economic union	Free trade area launched in September 2000 Power pool in place Peace and security mechanisms in place
West African Economic and Monetary Union (UEMOA)	Benin Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, Togo	Full economic union	Customs union achieved Business laws harmonized Macroeconomic policy convergence in place

*Rwanda and Burundi joined the EAC in 2007

Source: Economic Commission for Africa, from official sources, 2002

2.4 Benefits of Regional integration

There have been many efforts towards regional integration around the world since World War II. All of the regional economic integration schemes stress economic growth as their key objective. Africa's desire is to transform itself in a strong united bloc of nations with the regional communities evolving from free trade areas and customs unions and culminating in a common market covering the continent.⁶³ The reasons for integration in Africa are based on a number of grounds. The small size of most African states is a handicap on economic growth and industrial development. The fragmentation of the region into small domestic markets by the colonialists inhibits their development and use.

Economic integration strengthens the countries involved politically and economically. As a group, the countries are in a better and stronger position to negotiate with other countries and groups, thus eliminating the danger of future duplication of industries. By banding together member countries enhance their international economic bargaining power especially beneficial to small countries in trade negotiations.⁶⁴ They are therefore able to create larger markets that will boost new trade opportunities and increase competition. The desirability of an integration scheme depends on the balance of the opposing forces of trade and trade diversion.

⁶³ see Harold K. Jacobson, Alfred A. Knopf, et al, *Networks of Interdependence: International Organizations and the Global Political System*, 2nd edition, (New York: 1984)

⁶⁴ *Assessing Regional Integration in Africa* ECA Policy Research Report (Addis Ababa: Ethiopia, 2004)

Oyejide contends that regional integration in the context of an export promotion strategy becomes stronger when dynamic factors are taken into account. He says that this can be realized in practice depending on the extent to which economies of scale and international competitiveness are achieved and on the feasibility of setting up a suitable compensation scheme.⁶⁵

There seems to be a skewed flow of trade with East Africa exporting mainly primary agricultural goods to the Developed countries and the Developed countries exporting manufactured goods to East Africa and Africa as a whole at exorbitant costs. This has generated the “hub-and-spoke” trade pattern in which activities such as manufacturing, with powerful scale economies are located in the European “hub” and they supply consumers located in the African “spokes”, who are deficient of large markets that warrant the location of manufacturing production facilities.

According to the location theory, regional integration would reduce intra-African trade costs and alter the existing hub-and-spoke production and trade pattern. If impediments to trade within the integrated region were quickly eliminated, then liberalization measures that bring about large reductions in intra-regional trade costs would substantially counter the trend towards concentration of production.⁶⁶

Economic theory predicts that free trade will improve welfare by enabling citizens

⁶⁵ T. Ademola Oyejide, *Regional Integration and Trade Liberalization in Sub-Saharan Africa*, African Economic Research Consortium (Nairobi: AERC PAPER 28, November, 1997, pg 14

⁶⁶ Oyejide op.cit. pg 14

to procure goods and services from the cheapest source. This would lead to the reallocation of resources based on comparative advantage.

On the other hand, trade theory states that while free commodity exchange among countries can generate global growth, there is no guarantee that there will be equitable distribution of aggregate benefits among the trading partners. Some countries may benefit while others will lose. Terms of trade, international exchange rates and the market characteristics of a country's exportable goods are some of the factors that determine the benefits a country can derive from a trading relationship.

Investment promotion and enhanced economic growth is another reason for integration. This works well if the policy restraint necessary for macroeconomic stability is enforced. A participatory, reciprocal and supranational agency of restraint that ties key national economic policies in a reciprocal threat-making arrangement is required. The agency should have the mandate to ensure that partner countries commit to sound and stable policies by providing penalties and sanctions to errant members. This would be advantageous to the members rather than the "alien, unidirectional and unreliable conditionality of donors and international financial institutions".⁶⁷

Economic integration may pave the way for political integration especially if economic benefits are shared equitably. The growth rate of an economy is pegged

⁶⁷ *ibid*

on the type of economic policies, the rate of technological progress and knowledge accumulation, the quality of institutions and governance. Intra-regional trade can stimulate the rate of technological progress. When regional integration promotes Foreign Direct investment the technological spillovers grow.

Ralf Fucks brings out the idea that regional integration eases the achievement of peace building and enhances conflict management. This is attained through building supra-national institutions that enhance international cooperation and non-violent conflict resolution. He says that, “regional integration is a very complex undertaking; creating a common market which forms a solid base; enhancing scientific and cultural cooperation; and developing common political institutions. Regional integration demands the will to share power not only between states involved, but between the national states and regional institutions.”⁶⁸

2.4.1 Potential for Trade expansion in a Regional Economic Arrangement

African trade has been hindered by a number of factors including distorted trade regimes, high transaction costs due to inadequate transport, information and communication infrastructure, lack of political commitment and frequent policy reversals. Oyejide points out that regional economic integration play an important role in addressing these hindrances to trade.⁶⁹ Regional integration can be

⁶⁸ see Ralf Fucks, “Security in one World”, in Makumi Mwangi and Okello Occulli, eds *Rethinking Global Security: An African Perspective* (Nairobi: Heinrich Boll Foundation, 2006) p20

⁶⁹ Oyejide op.cit pg 17

effective in addressing concerns over policy credibility by locking in domestically implemented trade liberalization. It can be effective in addressing weaknesses in infrastructure and harmonization of standards and customs procedures.

In a speech addressing investors at a function in Nairobi, Razia Khan, asserted that, "Regional trade has been very important to the growth of a country's economy and sometimes its importance has been underplayed by officials and captured data".⁷⁰ The arrangement may improve the terms of trade of member countries if changes in trade volumes lower world prices. This would be as a result of more demand for goods originating from an integration area and less demand for the same goods originating from outside the member countries due to their high cost because of tariffs.

In the same vein, Lawrence⁷¹ argues that regional integration can be a means to achieve deep integration, which includes the integration of national regulatory systems and policies, competition policies and investment rules. When a group of sovereign states agree to integrate or cooperate in certain functions for the prospective development of each other such as free trade area or common market, they do so in order to coordinate production activities and heighten efficiency of economies. Deep integration has the potential to create an open and credible policy environment to encourage foreign direct investment and export oriented

⁷⁰ see The Daily Nation, Thursday August 7 2008, pg 23

⁷¹ R. Lawrence, *Preferential Trading Arrangements: The Traditional and the New in Trade Reform and Regional Integration in Africa* ed. By Z. Iqbal and M. Khan, Washington: International Monetary Fund, 1987

growth. This was the case for iron and steel manufactures in Europe who integrated to form the European Community.⁷²

For the implementation of the integration approaches in Africa, two options were advocated. The first was the Pan-African, all-embracing regional approach, which envisaged the immediate creation of a regional continental economic arrangement. The second was the geographically narrower approach that would have its roots at the sub-regional levels and build on sub-regional cooperation arrangements, this would achieve geographically wider forms of cooperation arrangements. The majority of countries favoured the narrower sub-regional approach.

In this regard regional economic integration is a prerequisite to overcoming economic fragmentation, promoting economic diversification and building cross-border links among productive entities. It should be emphasized that to achieve the benefits, a lot of work, compromise and dedication is required if deep integration is to succeed. This will depend on factors contributing to trade creation and trade diversion.

⁷² Charles W. Kegley, Jr. and Eugene R. Wittkopf, *THE GLOBAL AGENDA; issues and Perspectives* in Karl W. Deutsch et al, *Political Community and the North Atlantic Area: International Organization in the Light of Historical Experience* (Princeton, N.J.: Princeton University Press, 1957) pg 186

2.5 Challenges associated with Regional integration

In contrast to the benefits that accrue out of regional integration there is need to ask whether or not every increase in trade is desirable and is actually attributable to regional integration, as well as whether or not African economies are in a state to reap the maximum benefits of regional integration. This will ensure that Africa is following the right path. The regions with successful regional integration programs should not misinform Africa about the effects and gains of regional integration.

Despite its resources and endowments, Africa has progressed at a slow pace. Low incomes and widespread poverty reflect weak production structures and poor economic performance that pertain to African economies. Coller and Gunning⁷³ contend that Africa's growth predicament is traceable to bad domestic policies, lack of political rights, inadequate infrastructure, external environment, limited diversifications in production and lack of openness to trade. Accumulation inadequacy of human capital stocks and aid dependency are crucial constraining factors.

Agriculture or agribusiness comprises the predominant commercial activity in Africa. Rising food prices more than fuel, in African countries stand as the biggest stumbling block to the continents economic growth, as high levels of inflation threaten to undo the strides made by African economies in the past few

⁷³ P. Coller and J. Gunning, *Linkages between Trade Policy and Regional Integration in Africa* (Nairobi: Economic Research Consortium, 1996) p.15

years. Safeguarding gains of African reform efforts forms the pivotal challenge for most economies and this can be achieved through regional integration.⁷⁴

Regional interaction in Africa was caused by the inherited colonial pattern of production and high trade costs between the typical African country and the colonial European country. The modern sector of developing countries was created as an integral part of the economies of “mother countries”. Foreign countries, especially the colonial masters, still largely control most of Africa, therefore Africa is unable to break into new markets. It still heavily relies on primary commodities rather than diversification of its economies.

The East African Community can trace its failure to the skewed distribution of benefits associated with integration. This can be ascribed to the substantial differences in the economic size and levels of development of participating states. Size differences lead to agglomeration and polarized development with the largest most developed members being perceived to gain more than others.

Issues affecting states that have commonalities and partnerships have been easily handled because most of those problems cannot be effectively stopped at national frontiers.⁷⁵ Currently the EAC has attempted to address these challenges though the issue of compensation is of major concern. Emphasis has been placed on

⁷⁴ see Business Daily, *Friday, 8th August 2008* pg 7

⁷⁵ E. Oteiza and F. Sercovich, *Collective Self-Reliance: Selected issues*, International and Social Science Journal, Vol. 28, No. 4, 1976 p666

appropriate safeguards to address trade imbalances and facilitation, customs procedures, and infrastructure constraints.

With regard to the issue of inadequate infrastructure in Africa, it is clear that the continent needs a functioning transport and communication system, in order to get goods to their destined markets. According to the Commission for Africa Report (2005), transport costs impose the equivalent of an 80% tax on clothing exports from Uganda. These costs make it extremely difficult to get goods to markets at a competitive price and it also costs a lot to ship goods from Africa to other continents.⁷⁶ Cooperation led to the investment of the Great North Road that runs from Tanzania through Kenya and into Uganda. Such cooperation bolsters enforceability. There is need for massive investment in infrastructure if African economies are to grow. However, the lack of political commitment has afflicted the organization impeding its progress in implementing its vision.

2.5.1 Disparities in restrictiveness of Trade Regimes

The early 1960's and early 1990's saw a majority of African countries build high interventionist and protectionist trade regimes. These regimes were broadly characterized by restrictive licensing systems, high tariffs, escalated or cascading tariff structures made up of several layers, varying degrees of import prohibitions and tight foreign exchange controls; on the import side.

⁷⁶ Commission for Africa, *Our Common Interest*. Report of the Commission for Africa. London, March 2005

On the export side, the trade regimes featured substantial implicit and explicit taxes as well as frequent use of non-tariff barriers, such as the prohibition of certain export items. When all these are taken into consideration, they probably account for the rather haphazard, incoherent and internally inconsistent nature of the trade regimes that eventually evolved. ⁷⁷

Oyejide asserts that the heavy reliance on tariffs for revenue has been a major motive for imposing high import and sometimes export tariffs. Most African countries rely on a very narrow range of exports and their colonial legacy. Many of the African countries have been highly susceptible to balance-of-payments pressures, given their strong commitments to the maintenance of often unrealistic fixed exchange rate systems. Thus, trade policy became a substitute for more appropriate policies needed to maintain macroeconomic discipline such as exchange rate and fiscal policies.

The desire to protect domestic industries in the context of the import-substitution industrialization (ISI) led also to the enactment of trade regimes. This is evidenced by the extensive exemptions from tariff duties and low tariff rates on imported inputs used by local producers. Generally finished products attract imposed high rates while the raw materials have much lower rates. Although high tariff rates were applied to “luxury” goods which were thought to be consumed by the rich, the high tariffs did not always protect local industry. This is because the luxury goods lacked local production industries therefore they did not need to be

⁷⁷ T. Ademola Oyejide, *op.cit.* p.24-26

protected. In certain cases, the high tariffs aimed at raising revenue based on perceived ability of certain categories of consumers to pay.

Liberalization efforts embedded in the SAPs were designed and implemented in the context of specific regional integration schemes. African trade liberalization attempts suffer from problems of credibility, typically reflected by reversals of trade liberalization initiatives. Policy reversals are virtually unavoidable due to the reluctance of governments to abandon traditional trade policy instruments in addressing incompatibility issues.

Brenfield⁷⁸ argues that the new-liberal orthodoxy that dominates the international financial institutions and the new world order contend that deregulation of markets and prices, scaling down the role of government and trade liberalization would appear like ingredients for enhancing efficiency and welfare. However, the fact is that few of the specific policy instruments that make up the neo-liberal policy package enjoy strong empirical support.

Most African countries have produced and exported primary commodities in exchange for manufactured goods. The continent has an opportunity of diversifying its production and trade away from dependence on agricultural products by developing physical infrastructure, removing obstacles to the free movement of goods and productive resources and harmonizing monetary, fiscal

⁷⁸ C. Kegley and E. Wittcoff, *World Politics and Transformation*, 4th edition (New York: St. Martins Press, 1993) pg 152

and financial polices across the African sub-regions. This will vastly improve the operating environment for foreign investors.

Khol posits that many developing countries complain that trade liberalization has negative results to their economies yet it is touted to be positive for growth and development. One of the key things to appreciate about trade is that if imposed upon countries that are not ready, it can contribute to a vicious cycle of financial instability, debt and recession.⁷⁹

There has been slow progress in trade liberalization although some integration schemes have made great strides towards free trade and customs union. The slowness can be attributed to the continual revisions in plans and concerns about the revenue loss implications of trade liberalization. Efforts to address infrastructure and production problems would be mandatory if trade liberalization is to unleash its full potential in market integration schemes.

2.5.2 Dependence on Trade Taxes

The dependence of trade taxes constitutes a major hurdle for tariff liberalization in the region. Chauvin and Gaulier (2002), note that regional integration may lead to changes in the structure of individual economies that could lead to a contraction of previously import-substituting industries that were important sources of revenue.⁸⁰ In countries that trade a lot within a given regional

⁷⁹ C. Kegley and E. Wittkoff op. cit. pg 152

⁸⁰ S. Chauvin and G. Gaulier, Regional Integration in Southern Africa, CEPII, Working Paper 2002-12

organization, government revenue losses due to integration can be large, because international trade is the main source of tax revenue in most African countries. In contrast, those countries that trade less with their community partners have small static revenue loss due to opening their markets to other community members. Most low-income countries have been unable to replace lost trade tax revenue from other revenue sources.

As reforms are implemented, care should be taken to broaden the effective tax base and seek alternate sources of revenue and better expenditure control. This is because government revenue from tariffs is reduced, directly through tariff cuts among members, and indirectly through a shift away from imports from non-members subject to tariffs. The cost of this loss depends on how easily members can switch to alternative ways of raising funds but can be high in countries that rely on tariff revenue.

African countries should adopt measures to ensure that trade liberalization does not erode their revenue base. These include attracting more investments, finding alternative sources of tax revenue, domestic tax reform, diversifying the economy and dealing with smuggling and corruption. If there are no domestic mechanisms in place to compensate African countries for potential revenue loss, then this will put pressure on African countries to resist liberalization.

2.6 Conclusion

Trade has been a key factor of economic growth in many countries, hence the economies are interdependent. The economic interdependence among countries has created a situation in which national economic problems are increasingly becoming a matter of international concern. It therefore follows that regional integration is an essential element in accelerating development and economic growth and promoting interregional trade. It reduces the vulnerability of African countries to external influences and assist in dealing with challenges such as fluctuation in prices of primary goods and large increases in imports of manufactured goods.

The study supports the static effect argument that well managed economic integration can increase efficiency and economic welfare in its members facilitating increasing consumer choice and competition that producers face. The dynamic effect comes with gains that are sufficient motivation for the enhancement of regional integration in Africa. The small size and relatively closed structure of many African countries mean that there is scope for fully exploiting economies of scale and removing local monopoly power.

Appropriate economic policies are prerequisites for the deepening of efficient economic integration. There is no single policy that is sufficient on its own to ensure favourable growth in economic integration. Economies need at least to

moderate degree of success in several policies in order to benefit optimally from regional integration.

In order for trade to be effective as a tool for regional integration, Africa needs to address its internal barriers. These include improvement of infrastructure, reducing trade barriers, diversifying economies away from current levels of dependency on primary commodities, promoting governance, harmonizing policies and addressing inadequate resources. The question of how regional integration can help to overcome the problems by Africa in its quest for growth and development has been successfully addressed.

Chapter 3: Experience of Regional Integration in East Africa

3.0 Introduction

Regional integration has gained momentum in recent years in Africa. This is partly driven by global trends and by negotiation of the Economic Partnership Agreements with EU. This chapter looks at the history of the East African Community from the colonial era to date. It examines its objectives, the prospects and challenges facing the EAC as well as its viability socio-culturally, politically and economically. Deductions on the attributes of EPA negotiation, and the relationship between the EU and EAC with respect to EPAs are made. Assessment is made on the role of EPAs in the East African region with reference to its integrative phenomena at different economic levels.

3.1 History of integration in East Africa

The issue of regional integration in East Africa dates back from the 19th century colonial period. The regional grouping for the three East African Countries, Kenya, Uganda and Tanzania was initially formed in 1919.⁸¹ More elaborate arrangements in East Africa have included the East Africa high Commission (1948-1961) and the East Africa Common Services organization (1961-1967). It developed into a customs union in 1967 under the East African Community but collapsed in 1977.⁸² But even after the collapse of the community, the spirit of

⁸¹ Ahmed Mohiddin, *Deepening Regional Integration of the East African Community*, Development Policy Management Forum, (Oxford: The Jam Factory, 2005) pg 1

⁸² Nehemiah K. Ng'eno (et al), *Regional Integration Study of East Africa: The Case of Kenya*, KIPPRA Working Paper Nol. 9 (Nairobi: Kenya Institute for Public Policy Research and Analysis (KIPPRA), 2002) pg2

integration among the three partner states continued to exist. The East African Community, hereinafter referred to as the EAC, is the regional economic community comprising of Kenya, Uganda, Tanzania, Burundi and Rwanda, with its headquarters based in Arusha, Tanzania. Efforts to revive the Community started with the signing of an agreement for the establishment of the Permanent Tripartite Commission for cooperation in November 30th 1993. The commission was charged with the responsibility of coordinating the economic, social, and cultural, security and political issues for closed East African Cooperation. This was rooted in the Treaty Establishing the East African Community, that was signed on November 30th, 1999 and entered into force on July 7, 2000 after being ratified by the three initial members- Tanzania, Kenya and Uganda.⁸³

The revised institution was officially inaugurated on 15th January 2001 during the first summit of the Heads of States.⁸⁴ The protocol for the establishment of EAC Customs Union was signed on 2nd March 2004. On 1st January 2005 the new EAC entered into a Customs Union under the East African Community Customs Union (EACCU). The Protocol contains among other elements the application of the principle of asymmetry, which is an attempt to address the imbalance of trade in the member countries. Countries do not charge equal Common External Tariffs (formerly used to protect infant industries) to other members or on some selected goods.

⁸³ East African Community, *Treaty Establishing the East African Community* (EAC Secretariat: Arusha, 2002)

⁸⁴ Maria Nassali, The East African Community and the Struggle for Constitutionalism: Challenges and Prospects in Shivji, Issa G (ed), *Constitutional Development in East Africa for the Year 2000* (Dar es Salaam: Kituo Cha Katiba, 2003) pp122-123

In November, 2006, during the eighth meeting of the EAC Heads of State Summit held in Arusha, the republics of Rwanda and Burundi were formally admitted to the East African Community as full members, effective from 1st July 2007 after they concluded an Accession Treaty with a time frame of six months.⁸⁵ The East African community can therefore be regarded as an integration based on a geographical location of the members. This type of integration could have been as a result of commercial activities across the borders of members of the different countries.

The community's vision is a commitment to transform its member states, into a "prosperous, competitive, secure (stable) and politically united East Africa." Its mission is to widen and deepen economic, political, social and cultural integration in order to improve the quality of life of the people of East Africa through increased competitiveness, value added production, trade and investment.⁸⁶ For almost a decade, the EAC rendered valuable services to the people of East Africa with tangible economic development. Tanzania was enabled to produce foil, circular and plain aluminum sheets as well as manufacture motor vehicle tyres and tubes. Uganda manufactured bicycles and nitrogenous fertilizer. Kenya manufactured electric bulbs.⁸⁷

⁸⁵ See Draft Strategic Plan 2007-2012, Ministry of East African Community, Republic of Kenya, Nairobi, March 2007, p.1

⁸⁶ see Daily Nation, Monday May 14,2007 pg 4

⁸⁷ Assa Okoth, *A History of Africa 1915-1995* (Nairobi: East African Education Publishers, 2006), pg 56

3.2 Objectives and Organs of the EAC

Since 2004, efforts have been directed towards fast tracking the achievement of a political federation and finalization of the Third EAC Development Strategy (2006-2010). The objective of the community according to the EAC Treaty is to develop policies and programmes for widening and deepening cooperation in the fields of trade, investment, standardization and quality control, finance, infrastructure, human resource development, agriculture, environment and health among others. It is to be realized through phases of the Customs Union, a Common Market, a Monetary Union and ultimately a Political Federation.

However the report of the Fast tracking Committee reports that fear of loss of sovereignty is an issue in the minds of some members of the political elites of East Africa. The fear is that as a federation, the nation states would cease to have any meaningful powers but would otherwise be relegated to mere provinces within the federation.⁸⁸

The EAC, a block of at least 120 million people by 2004 has started marketing itself as a competitive single market and investment area in East Africa alongside the development of regional infrastructure and human resources, science and technology. Rwanda and Burundi, which are considered francophone states, limits their scope and interaction with the English speaking Kenya, Uganda and Tanzania.

⁸⁸ EAC, *Report of the Committee on Fast Tracking East Africa Federation* (Arusha: EAC Secretariat, 2004) pp 81

As provided for in Article 5 of the Treaty, the EAC is aimed at culminating to a political federation in the region. It is envisaged that the process will follow a neo-functional approach which will include the development of policies and programs aimed at widening and deepening cooperation among partner states in political, economic, social and cultural fields, research and technology, defense, security and legal matters.

The treaty commits states to six fundamental principles in accordance with the provisions of the African Charter on Human and People's Rights, namely: good governance, democracy, respect for the rule of law, accountability and transparency, recognition, promotion and protection of human and people's rights.⁸⁹

The Treaty aims to create common external tariff, establish common customs laws and regulations, eliminate internal tariffs and harmonize procedures. For example, Kenya aims to eliminate all tariffs on imports, mainly agricultural produce from Uganda and Tanzania, and some tariffs from Rwanda and Burundi. On the other hand Uganda and Tanzania aim to eliminate tariffs on each other's imports. Sensitive goods will be accorded preferential treatment but this exception will end in 2009 when EAC attains full customs union status.

The Treaty established a number of organs and institutions to perform the functions of the Community. These are the Summit of Heads of State, which

⁸⁹ East African community, *Treaty Establishing the East African Community* op.cit pp 12-13

gives general direction and impetus to achieve the objectives of the Community. The Council of Ministers responsible for Regional Cooperation of each partner state, the Coordination Committee consisting of Permanent Secretaries, Sectoral Committee, the Secretariat, which is the Executive branch of the Community, The East African Legislative Assembly launched in 2001 and the East African Court of Justice which is the judicial body whose main mandate is to ensure adherence of law in the interpretation and compliance with East African Treaty.⁹⁰

The treaty adopts a consensual decision making process. One of the reasons why the EU has managed to deepen regional integration without huge income transfers that cause conflict is consensual negotiations that accommodate all members' worries through compensation.⁹¹ Nyirabu comments that the disadvantage of this kind of process is it runs the major risk of decisional paralysis.⁹² When too much power is vested in the summit, the integration scheme becomes unduly vulnerable to manipulation by politicians. The result is that no decision is made and if it is made, then it may not be implemented.

Since integration leads to greater loss of sovereignty, political commitment is required if integration is to succeed. The current EAC agreement is "a people-centred and market-driven cooperation unlike the previous agreement which relied a lot on individual leaders in the three countries. But the treaty still leaves

⁹⁰ *ibid*

⁹¹ Nehemiah Ng'eno et al op cit pg 117

⁹² See, Dr. Mohabe Nyirabu, Lessons from the East African Community of 1967-1977 in *Deepening regional integration of the East African Community*, op.cit. pg 23

immense power in the hand of the heads of state, which is empowered by Article 63 to assent to or reject Bills passed by the East African Legislative Assembly. EALA wants the EAC integration strategy changed so that political integration is hastened, as a way of entrenching the Community and making it more difficult for its breakup.⁹³ A major determinant of the EAC integration success will be the level of involvement of stakeholders in decision-making and implementation which currently leaves a lot to be desired going by stakeholders views.

3.3 Achievements of EAC

The first achievement of the EAC was establishing the organs of the community as stated in the EAC Treaty (2002), establishment of the customs union, strengthening the East African identity, harmonization of monetary and fiscal policies, improvement of transport and communications systems, the launching of the Lake Victoria Commission and deepening of cooperation in different sectors. The establishments of the East African Court of Justice (EACJ) and East African Legislative Assembly (EALA) have made positive strides. Since the establishment of EALA, at least nine Acts have been passed and enacted including the Community Emblem Act, the EAC legislative Assembly Power and Privileges Act.⁹⁴

The establishment of the EAC Customs Union who's Protocol was signed in March 2004 and entered into force in January 1, 2005, requires that Kenya

⁹³ The East African, January 28, 2002 pg 2

⁹⁴ Diodorus Buberwa Kamala, MP, *The Achievements and Challenges of the New East African Community Cooperation* in Research Memorandum No. 58. June 2006 pp 9.

eliminate its tariffs on imports from Tanzania and Uganda respectively, from the first day of the implementation of the protocol. The taxes will gradually decline for Kenyan goods exported to Tanzania and Uganda to 0% in 2010. The Protocol establishes three bands of Common External Tariff on imports originating from third countries. The three Common External Tariff bands are, 30% on raw materials imports, 10% on intermediate products and 25% on finished products. The Protocol will increase intra-trade among the partner states, increased competition that will increase consumer's choice, reduction of costs and attraction of foreign direct investments.⁹⁵

The EAC has taken steps towards harmonization of monetary and fiscal policies including: convertibility of partner states currencies, harmonization of banking rules and regulations, harmonization of Finance Ministries' pre and post-budget consultations, regular sharing of information on budgets and reading of budget statements on the same day. There have been changes in the policies and trading practices and regulations in the three stock exchanges. The Capital Markets Development Authority that oversees development of the capital markets in the EAC aims to develop an EAC Capital Markets including managing cross listing of stocks.⁹⁶

A Tripartite Agreement on Road Transport has been ratified by partner states to facilitate interstate road transport through reduced documentation for crews and

⁹⁵ Ibid p.9
⁹⁶ Ibid p.10

vehicles at border crossing, harmonized requirements for operation, licensing and customs and immigration regulations, among others. A Sectoral Council on Transport Communication and Meteorology was set up to fast track decisions.

The East African Road Network Project is currently working to improve East African Infrastructure. An estimated US \$1 billion has been utilized in the implementation of these projects with a target for implementation by 2008. Partner states directly implement components of the project within their borders with the support of the World Bank, European Union and the African Development Bank among others, with the Secretariat coordinating the realization of the whole project on a regional basis through regular consultative meetings and conferences.⁹⁷

A taskforce has been set up to study the harmonization of road transit charges and addressing road safety issues in the region. On railway transport, projects are ongoing for the construction of the Tanga-Arusha-Musoma-Port Bell/Jinja Railways that would make substantial impact on the efficiency of the East African Railway system which goes hand in hand with improvement of the ports at Mombassa and Dar-es-Salam that act as the gateway to landlocked East African countries. Implementations of Cross-border telecommunication Conductivity, East African Postal Automation Project, conclusion of a Tripartite Inland Waterways Agreement and completion of the study of the status of Lake Victoria ports are the other achievements.

⁹⁷ *ibid* p.11

The Lake Victoria Environmental Management Program has been implemented with the objective of preserving Lake Victoria, which is faced with persistent decline of water levels and increasing levels of pollution. A draft of the Lake Victoria Transport Bill is under consideration and partner states ratified the Tripartite Agreement on Inland Waterways Transport in 2004, which would enhance transport and safety on the lake.⁹⁸

The Memorandum of Understanding on Foreign Policy Coordination was discussed in 2002, to have strategies and modalities for bringing about common foreign policy for East Africa. These include collaboration in diplomatic and consular activities, collaboration in economic and social activities, liaison and exchange of information and collaboration in administration and capacity building.⁹⁹

The EAC signed protocols on Environment and Natural Resources Management, Standards Criteria for the Classification of Hotels, Restaurants and other tourist facilities for joint tourism promotion initiatives. The two protocols will help in promoting East Africa as a single tourist destination and will result in attracting more tourists and growth of the tourism industry. The partner states have participated in major international travel market forums such as the international Tourism Bourse in Berlin in March 2006.

⁹⁸ *ibid* p.12

⁹⁹ Diodorus Buberwa Kamala *op.cit.* pp14

Other developments designed to foster the feeling of integration among the people of EAC include the introduction of the East African Community Flag, the launching of an East African anthem and the East African passport which is designed to ease border crossing for East Africans. It's valid for travel only within the East African partner states.¹⁰⁰

From 2005, the EAC has been exploring options for fast-tracking the process towards achieving a political federation and a committee was set up to work on this matter. The prevailing view is that regional issues and the integration process would be more expeditious if conducted within a clear, definite and enabling political framework.¹⁰¹

3.4 Challenges facing the EAC integration process

In examining how the EAC handles weaknesses that led to the collapse of the older agreement, Ng'eno et al point out that, the EAC still adopts a consensual decision-making process. They hasten to note that consensus runs the risk of decisional paralysis. Consensus to carry out a task may be part of a definite tendency towards comity in relationships – not wanting to confront a leader who feels strongly about a particular issue. The result is that no decision is made nor implementation after a decision is made.

¹⁰⁰ ibid p16

¹⁰¹ The Committee was chaired by Amos Wako, Attorney General of Kenya, Professor Haidan Amana, Vice Chairman (Tanzania), Dr. Ezra Suruma, Secretary (Uganda), and Associate members were Professor Sam Tulya-Mulika (Uganda), Ms Margaret Chemengich (Kenya) and Mr. Mohamed Fakih Mohamed (Tanzania). Consultations culminated in the publication of the *EAC Report of the Committee on Fast Tracking East African Federation* (EAC Secretariat: Arusha, 2004)

3.4.1 Ideological and financial differences of EAC member countries

Ideological differences that led to the collapse of the former EAC bring out elements of suspicion among the members. Kayunga¹⁰² has observed that sovereignty and nationalism are handicaps to the integration process. Both processes are antagonistic to one another for they lack a harmonized political system.

That the countries are pursuing different political systems with Kenya and Tanzania pursuing multi-party democracy while Uganda pursues what it calls 'no party democracy' is worrisome. There is fear of nations ceasing to have any meaningful powers under a federation due to its universalizing nature. Transition to democracy varies widely with members. While President Yoweri Museveni of Uganda is a fervent supporter of the East African federation, he could also be its biggest obstacle. His changing the constitution to run for a third term did not go down well with some of the member states in the EAC. In line with this, some member countries have been engaged in the review of their constitution based on the separate internal concerns.¹⁰³ In the case of Buganda, Uganda, "any form of integration that would undermine the unique form of land tenure system in Uganda that privileged a few "mailo" land owners was vehemently opposed.

¹⁰² Sallie Simba Kayunga, *Deepening Political Integration of the EAC Countries: The Uganda Case* in Ahmed Mohiddin, ed. *Deepening Regional Integration of the East Africa Community*, Addis Ababa: DPMF Book Series 2005, pp 210

¹⁰³ EAC, *Report of the Committee on Fast Tracking East African Federation* op.cit para 198

Foreign ownership of land by citizens from other EAC partner states is rejected and Tanzania has also articulated this argument.¹⁰⁴

The differences particularly between Kenya, which advocated capitalism and Tanzania that, pursued socialist policies still persist. Huge income transfers in favour of Kenya made Tanzania and Uganda feel that they were not receiving a fair share of gains from the Community. The Treaty does not state clearly how the costs and benefits accrued from the integration will be shared nor does it address equity issues, (The EAC has no compensation mechanisms for weaker members).¹⁰⁵

Financing the process of fast tracking the federation is a challenge because “on many occasions, the partner states have not remitted their contributions in time. Reliance on donor funding is an impediment to activating the process leading to the federation itself.¹⁰⁶ Financial implications of trade liberalization process which, has led to export and import restrictions on foodstuffs, tariffs on non-East African community originating products and the inability of cross border traders to meet the requirements stipulated in the customs declaration form are causes of huge unrecorded transactions that take place in the East African border towns. This culminates to loss of customs revenue despite the large number of customs officers deployed at the border posts.

¹⁰⁴ Sally Simba Kayunga, Deepening Political integration of the East Africa Countries: The Uganda case op. cit p.212

¹⁰⁵ Nehemiah K. Ng'eno et al, *Regional Integration Study of East Africa: The Case of Kenya op.cit.* pp102

¹⁰⁶ EAC, *Report of the Committee on Fast Tracking East African Federation op.cit.* para. 195

There are more than 20 barriers mounted by police on the transit routes. There is also no formal non-tariff barrier monitoring mechanism in place where traders can record their problems. Traders have to pay some charges to clearing agents depending on the volume and variety of the goods being traded with the lowest fee being Kshs 200 (\$3.10) in Malaba, Uganda. The highest charging border point was Mutukula, Tanzania where a trader had to part with kshs 8,375 (\$126.90). Poor infrastructure and banking services at border posts with some inspection bays serving as parking bays, as well as excess capacity is the main hindrance to competitiveness of businesses in the region.¹⁰⁷

Trade imbalances between the partner states especially Uganda and Tanzania continue to raise issues on their relatively low development status to Kenya and demand asymmetrical implementation of the integration process. Under-staffed standards departments, in Bujumbura, Burundi and Kanyaru in Rwanda lack sanitary and phyto-sanitary officials posing a high risk of animal and plant disease transmission.

Conflict due to commonly shared resources threatens inter-state security. For instance, the case of Lake Victoria that is shared by three states, Kenya, Uganda and Tanzania. In addition there is cross border cattle rustling between Kenya and Uganda. The joining of the federation by Rwanda and Burundi is considered a risk that could increase ethnicity problems to the other partners that characterize

¹⁰⁷ see The East African, August 11-12, 2008 pg 10

the two countries.¹⁰⁸ Tied with this is the non-harmonization of positions at the international arena. Members do not seem to have the same position on similar issues. For example, the lion species is placed by Kenya as an endangered animal while Tanzania encourages game hunting.

Ahmad Aly,¹⁰⁹ depicts dual or multiple memberships as a challenge because the regional groupings have almost similar objectives and have a tendency of tackling almost the same problems at almost the same time but in different independent manner without coordination or consultation.

Charles Katungi states that multiple memberships lead to conflict of allegiance and divided loyalties. States pulled by divergent poles of economic cooperation and integration find it difficult to establish their priorities.¹¹⁰ Whilst Uganda and Kenya are members to COMESA, Tanzania is not, it belongs to Southern Africa Development Community (SADC) which Kenya and Uganda are not members. The COMESA countries resolved to establish their customs union by 2008 while SADC countries resolved to establish theirs by 2010.¹¹¹ Tanzania is carrying out EPA negotiations with SADC while Kenya entered into EPA negotiations through COMESA. Therefore other members of the EAC have to wait until when all partners reach a compromise.¹¹²

¹⁰⁸ The Sunday Standard, 5th November 2006 p25

¹⁰⁹ Ahmad A.H.M. Aly, *Economic Cooperation in Africa*, (London: Lynne Rienner 1994) p.65

¹¹⁰ Anyang' Nyong', *Regional Integration in Africa: Unfinished Agenda op.cit. p.175*

¹¹¹ see the East Africa, 6-12 November 2006, p.2

¹¹² Tanzania pulled out of COMESA in 2000

There is a possibility of creating tension within the EAC whose Treaty prohibits member states from acceding or joining Unions with conflicting objectives. EALA suggests that member states of the EAC can only join other customs unions as EAC and not individual member states.¹¹³

Duncan Okello points out that multiple memberships create bureaucratic, legal and political problems that stifle efficient trade practices. It imposes heavy financial and administrative burdens in the already weak economies and engender acute problems of coordination. According to him, EAC can ill afford such developments if its initiative is to become sustainable.¹¹⁴

3.5 European Union's Experience

The European Union (EU) and its antecedents in the European Coal and Steel Community formed in 1951 and European Community holds a considerable place in discussions of regional integration arrangements. It is referred as a likely benchmark and chief example of a regional, political and economic integration in modern times and its successes deserve where possible emulation.¹¹⁵

The European community, which was formed in 1967, comprised of six members.

The implication is that a small number is easy to work with than a large one. It

¹¹³ Yona Kanyomozi and Odida, presentations at the Development Network of Indigenous Voluntary Associations (DENIVA) Public Dialogue on Fast Tracking the East African Federation Dialogue, Hotel Equatorial Kampala, 24th November (2006)

¹¹⁴ Duncan Okello (ed), *Towards Sustainable Regional Integration in East Africa: Voices and Visions*, Occasional Paper, East Africa, vol 1/1999, p.29

¹¹⁵ Henry Mutai, *Regional Integration Facilitation Forum: A Simple Answer to a Complicated Issue*, the Tralac Working Paper no. 3, 2003 pg 15

paved the way for the Treaty on European Union (Maastricht Treaty) on 1st November 1993 and was placed under the control of the Parliamentary Assembly, a forefather of the European Parliament. Regional organizations in Africa have commonly been compared to the EU process, either to point out its limitations and narrow approaches or on the contrary to stress its over ambitious and grand vision of integration.¹¹⁶

Carbaugh¹¹⁷ contends that the EEC agreed in principle to follow the path of economic integration and eventually become an economic union. He argues that the main goal was to achieve peace through economic integration and cooperation, a point which is not disputed by this study. In order to become integrated states had first to dismantle tariffs and establish a free trade area in 1968. This liberalization of trade was accompanied by five-fold increase in the value of industrial trade and led to the EU becoming a full-fledged customs union in 1970 progressing finally to a common market in 1985.

The EU became a common market when its Heads of State agreed to pursue deeper levels of integration. The Maastricht Treaty was signed with target dates for an establishment of a European Central Bank and European Monetary Union. The economic conditions of the 15 various members varied considerably at that time. The treaty specified that in order to be considered to be ready for a monetary union, a country's economic performance would have to be similar to

¹¹⁶ ibid

¹¹⁷ R.J. Carbaugh, *International Economics*, 9th Edition (Australia: Thomson SouthWestern, 2004), pg 350

that of other member states.¹¹⁸ When the United Kingdom, Ireland and Denmark were admitted to the EU, they had to adjust their external tariffs to equal existing EU tariffs. This meant raising their tariffs on agricultural products such as tobacco, oranges and kraft paper, and lowering their industrial products.

The EU claimed that lowering of industrial tariffs by the newly admitted countries more than outweighed the raising of agricultural tariffs. It implicitly argued that admissibility is used in practice as a criterion for evaluating regional integration agreements. Jackson and Davey noted that, member states could not pursue different rates of monetary growth, economic growth and inflation, with different currencies unrelated to each other. In this regard the members of the EU had to align their economic and monetary policies.¹¹⁹

The EU has evolved from a Customs Union, Single Market, Monetary Union and finally membership arrangement. In 1995 its membership increased to fifteen, with the inclusion of Austria, Sweden and Finland and the Maastricht Treaty was amended in areas such as foreign policy and democracy. With the amendment, the Amsterdam Treaty was made. In October 2007, the EU Heads of States approved that a New Reform Treaty would amend and replace existing treaties. This evolution clearly indicates the need to review blueprints for regional integration in accordance with the realities and other developments. Africa should therefore not hesitate to amend its treaties.

¹¹⁸ *ibid*

¹¹⁹ John H. Jackson and Davey William, J. *Legal Problems of International Economic Relations*, (Minnesota: West Publishing Co. 1986) pg 408

The EU takes on states ready to pool sovereignty together in order to safeguard freedoms, create bigger markets and enhance geo-strategic position globally. Africa can take its cue from the EU institutional framework, but because of its unique political and economic situation, African regional arrangements cannot simplistically replicate the EU integration process to the letter.

3.5.1 Theory Explaining the European Integration Model

The early evolution of the European community left a legacy that influenced the theory and practice of regional integration. It provided an example of several countries joining together in an economic union to bring about economic growth in the region. Initially, neo-functionalism emerged as the analytical and probable theoretical approach from which European integration was studied. Axline indicates that the main purpose of European integration was political unification, which was pursued through cooperation in economic activities. The initial stages of regional economic integration such as removing barriers to trade can be perceived as non-controversial. It would also be perceived as adopting a common external tariff, harmonizing national and regional policies.¹²⁰

The traditional neo-classical customs theory presupposes a modern industrialized economy, including full employment factors of production. However in the East African countries and Africa as a whole, industrialization, full employment and

¹²⁰ W.A. Axline, *The Political Economy of Regional Cooperation: Comparative Case Studies* (London: Pinter Publishers, 1994) pg 46

sustained economic growth are goals rather than underlying conditions of these countries. The necessary industrial infrastructure is lacking in all member countries. This should be put in place before tackling the issue of efficiency of industrial production. Regional economic integration is therefore understood as part of a development strategy of the region, where economic development is as important as economic growth.

3.5.2 Lessons for East Africa

For regional integration to be effective in East Africa, its treaty must also reflect integration as the overall development strategy. The EU has had a long history of economic relationship with East African Community since the late 1970's. A common economic factor motivated these countries to cooperate and trade. The EU has been a major aid provider while East African and other ACP countries have been heavily reliant on EU markets for their exports. The EU has been an important trade partner in respect to both imports and exports for countries in Africa. It has committed a sizeable share of its development aid and technical assistance to regional support and promotes both north-south agreements and building South-South North Free Trade agreements.¹²¹

Quantitative results indicate that deepening of economic integration in the European Union achieved substantial economic gains, on the order of 1 percent of GDP per annum in several EU countries between 2000 –2005. This was

¹²¹ See R. Cox and T. Sinclair, *Approvals to World Order* (Cambridge: Cambridge University Press, 1996) pg 104

predominantly due to pro-competitive effects of product standardization (with increasing returns to scale). Spillover effects on economic welfare are appreciable for the European Free Trade Area (EFTA) countries.¹²² Although the political and economic situations in East Africa are different from those in Europe, there is room to emulate the EU in this regard.

It is believed that the outcome of the EU's negotiation with EAC will have a significant impact on the region's economy. The EAC has been a major recipient of unilateral preferences into the EU market under the Lome conventions. These preferences provided them with important market access for agricultural and other exports. However, these unilateral preferences are incompatible with WTO rules. Members who are laxed should be assisted to move towards participating in programmes that will ensure a move towards reaching a particular stage of regional economic integration.

The ability to take on the obligations of membership such as commitment and adherence to the aims of a political, economic and monetary union is considered as one of the criteria for EU membership. Member states in regional organizations need to harmonize their protocols before getting into any trade negotiations. The EAC has already harmonized its rules of origin and is currently

¹²² See J. Haaland and V. Norman, Global Production Effects of European Integration in *Trade Flows and Trade Policy after 1992* ed. L.A. Winters (U.K.: Cambridge University Press, 1992) pg 77-80

coordinating air transport liberalization, information and communications technology and road and safety programmes.¹²³

Sanctions as an integration coordination mechanism are essential so as to have binding rules for enforcing the treaties. Debates on the issue of rationalization indicate that a lack of sanctions in East African countries has facilitated the multiple memberships, poor infrastructure which exacerbates the inability of member states to rationalize and behind border barriers which make trade facilitation costly. This is another case in which East Africa can learn from the EU and institute a sanction regime.¹²⁴

3.6 Conclusion

Regional integration is important in guiding the process of integration in the East African region albeit its slow progression in East Africa. Although some of the provisions of the East African Treaty need to be reviewed, strides have been made in terms of integration, trade and energy among others. Members need to entrench the Treaty at national level and to align it with national laws and interest of member states in accordance with international law.

The goals and objectives of the EAC have proved to be inconsistent with theoretical explanations of successful integration. The fact that some members in

¹²³ see EAC Report on Fast Tracking the East African Federation op.cit. para 198

¹²⁴ see Economic Commission for Africa (ECA), *Assessing regional Integration in Africa II. Rationalizing Regional Economic Communities*. United Nations Economic Commission for Africa, Addis Ababa, 2006

the East African Community and not fully committed to pushing the regional agenda forward is a drawback. Full ownership and participation of the people is mandatory for any regional integration to be successful for people are the primary resource in the industrialization process. This will require political will, ceding of sovereignty and strengthening the EAC institutions and secretariat. Political federation in the EAC would minimize the current divided loyalty between national and regional interest when negotiating and implementing economic integration process.

The harmonization of programs and activities will assist in ensuring that the integration process is not stalled. Although the political and economic situation in Europe is different from that of East Africa, there are still lessons that East African Community can learn from the EU integration process.

Chapter 4 – Progress in EAC-EU EPA Implementation

4.0 Introduction

This Chapter presents the findings of the study that emerged in each part of the research. The findings were arrived at after ascertaining reliability and validity of the data collected through books, internet, magazines, journals and articles and oral interviews before making conclusions. The population that was interviewed was derived from Trade officers from the Kenya Manufacturers Association, Permanent Secretaries and Trade officers from the ministries of Trade and Industry as well as ministries of East African Community.

The study discusses EPAs concept, its benefits and challenges, and its impact on efforts of Regional integration in East Africa and overall impact on EAC. It will examine why after adopting comprehensive strategies, EPA negotiations have not been implemented. An analysis of the economic performance including trade performance will be highlighted in this chapter. It will specifically indicate the overall impact of EPAs on EAC and the experience of the EU in line with the hypothesis of the study to determine the extent to which EA has progressed in regional economic integration.

4.1 Economic Partnership Agreements (EPAs): Concept and Objective

The EU has been an important trade partner of both imports and exports for countries in the African region. Most of the African countries were recipients of

unilateral preferences in the EU market under the Lome Conventions, which were incompatible with WTO rules.¹²⁵

The Cotonou Agreement, which entered into force in 2000 established a new trading regime between the EU and ACP countries by creating reciprocal trade relations in conformity to the WTO trade rules from 2008 onwards. This trading Agreement is what is known as Economic Partnership Agreements.

4.1.1 Features of an EPA

An EPA is a development tool that supports ACP countries to seek and promote economic development. It's a term used to seek economic support for a particular course especially in the economic fora. The Cotonou Agreement blends ideas of consent and coercion. Consent is achieved when dialogue, partnerships and ACP states own their own development strategies. Coercion is present in the EU's presentations of EPAs as the only viable alternative and also through the implementation of frequent reviews of aid.¹²⁶

EU remains the most important East Africa's trading partner in respect of both imports and exports for countries in the region (Table 2) and its partnership with EAC through EPAs, is likely to contribute to higher growth, greater economic opportunities, foster the structural transformation and diversification of economies, and support regional integration of East African Countries. The

¹²⁵ The Lome conventions came to an end in December 2007

¹²⁶ see R. Cox and T. Sinclair, *Approvals to World Order op.cit* pg 105

cooperation will also provide suitable financial and technical support to cope with fiscal implications provided for. This will culminate in the eradication of poverty and raised standards of living.

Table 2. European Union – Share in Trade

	Exports to EU (as a percent of total)	Imports to EU (as a percent of total)
Burundi	50.0	30.6
Kenya	30.1	23.6
Rwanda	10.5	26.4
Tanzania	32.0	23.6
Uganda	60.7	20.6

Source: IMF Staff calculations: IMF Working Paper WP/04/227

The East African countries can export around 40% of their total EU exports duty free. However, there are significant restrictions for products that fall under the EU Common Agricultural Policy. The EAC-EU trade deal entails an exclusion of sensitive products such as arms, which account for 18% of total trade with EC while another 80% of the EAC market would gradually open up to EU imports over the next 15 years. Had the EAC not entered into partnership with EU, the exports that were previously duty and quota free would have been forced to pay severe levies in the absence of a fresh deal after the lapse of the Cotonou Trade Agreement by 31st December, 2007.¹²⁷

In line with Article 37 of the Framework EPA, EAC and EU embarked on negotiations for a comprehensive EPA and adopted a road map to enable them to

¹²⁷ See, Business Daily, January 22, 2008, pg 2

conclude negotiations of the scheduled comprehensive EPA in March 2008.¹²⁸

The EAC and EC later met at technical level in April 2008 and considered among others; Rules of Origin, trade facilitation, agriculture, economic and development cooperation, sanitary and phytosanitary measures and technical barriers to trade.

The negotiations will cover the issue of improved market access for mode 4 supply of services (movement of natural persons). The worker remittances from temporary movement of workers can be a significant source of income and can stimulate growth through dissemination of technological and business skills.¹²⁹

From the theoretical point of view, the regional block forming an EPA must have reached at least the level of a customs union (such as the EAC) in order to enter the EU trading framework.¹³⁰ The EUs partnership with customs unions only makes it technically impossible for African countries to be members of more than one customs union.¹³¹

Khandelwal¹³² notes that the low level of trade integration, the divergent economic interests and the missing convergence in tariff levels as well as the perpetuation of “special and differential” treatment for LDCs complicates the formulation of a common negotiation position. Countries that form an EPA need

¹²⁸ Permanent Secretary’s Speech, Ministry of Trade, Thursday November 29, 2007

¹²⁹ Paul R. Krugman, *Strategic Trade Policy and the New International Economics* op cit p.7

¹³⁰ The EAC became a Customs union in 2004

¹³¹ The Official Comesa Insight, op.cit. p.38

¹³² Padamja Khandelwal, *COMESA and SADC: Prospects and Challenges for Regional Trade Integration.*

IMF WP/O4/227, 2004, IMF: Washington E.C. pg43

to have established a common external tariff and thus harmonized their external trade relations so that they are able to form a common position for trade in goods vis-à-vis the EU in conformity with WTO guidelines.

To date, the EAC has yet to negotiate an EPA collectively due to lack of a mandate by its members to agree on common positions. Some leaders are reluctant to negotiate an EPA with the EU for fear of pressure for further liberalization of its sensitive sectors and to avoid tariffs being increased on their exports to the EU. They are also reluctant to relinquish sovereignty for one united front. But the members appear to have agreed to the same liberalization schedule, thus an EPA should not in principle cause any problems for achieving a CET.

The most important element of an EPA is the establishment of an FTA. Before an FTA is launched, the regional integrated countries need to have sufficient harmonization of liberalization schedules otherwise the EPAs will create new barriers to intra-regional trade. FTA, will progressively remove all barriers to trade between the EU and ACP in order to enhance cooperation in all areas relevant to trade (CPA Art 37.7). Four East African countries embarked on gradual tariff reduction initiative in the year 2005 as follows, Kenya has 90%, Tanzania and Uganda 80% while Rwanda has 50% tariff reduction.

According to Fabiosa trade barriers hamper export growth and are a regressive policy instrument that hurts poor consumers.¹³³ An EPA is expected to address

¹³³ Fabiosa et al, The Doha Round of the World Trade Organization and Agricultural Markets Liberalization op.cit pg 335

issues of non-tariff barriers such as sanitary and phytosanitary standards. It is expected to safeguard measures for both industrial and agricultural products by providing support in the development of services sector such as finance, transport and telecommunications, along with appropriate sequencing of liberalization commitments.

Article XXIV, GATT states that EPAs will include about 90% of total trade and allow a time frame of 10 years for liberalization of the ACP countries, but the precise extent to which products can be excluded from liberalization is yet unclear but forms part of the negotiations. According to Lewis, the negotiations envisage technical assistance in the area of standards and liberalization of services both of which are critical areas in Africa.¹³⁴

Since the EU has committed to an asymmetric approach in terms of product coverage and transition periods, it is likely that African countries will not be required to liberalize all sectors but reciprocal liberalization of substantially all trade by African countries.¹³⁵ The rationale for reciprocity rests on the principle that liberalization of markets will increase competition within the ACP economies thereby stimulating local and foreign investment, leading to growth and development.

¹³⁴ J. Lewis, S. Robinson and K. Thierfelder, *Free Trade Agreements and the SADC Economies*, Journal of African Economies, Vol. 12, No. 2 pp.156-206

¹³⁵ see R. Cox and T. Sinclair, *Approvals to World Order* op.cit. p. 104

On Rules of Origin, it was agreed that EAC needs time to finalize preparation of its detailed position in consultation with SADC and ESA to ensure similarity and coherence for purposes of meeting the cumulation criteria. The EAC and EU met in July 2008 and agreed to cooperate in the areas of standards, technical regulations and conformity assessment, promotion of greater use of international standards in technical regulations and conformity assessments, including sector specific measures in the parties' territories. Thus the initialed framework EPA provides opportunities for further consolidation of EAC interests in the EU and EAC markets and helps to drive the Regional integration process in the EAC.¹³⁶

Article 22 of the Cotonou Agreement states that whereas support shall be given to ACP states that aim to achieve macro-economic growth and stabilization through disciplined fiscal and monetary policies, structural policies designed to reinforce the role of the different actors shall remain in place. EPAs will target trade related infrastructure projects in East African countries, thus help to attract investment as the conditions for economic activity will become more credible for economic operators, both domestic and foreign.¹³⁷

At the Council meeting of 12 December 2005, The European Council decided to double ODA by 2015. The member states confirmed that they will strive to

¹³⁶ *ibid*

¹³⁷ *ibid*

increase their collective spending on trade related assistance with a view to reaching a figure of €1 billion per year by 2010.¹³⁸

4.2 Regional Integration and Trade Performance

International analysts suggest that regional integration is capable of providing mutual benefits to all countries involved. As Herenkson et al¹³⁹ observed, belonging to the EU is growth enhancing through efficiency effect. He indicated that about 0.3% of the growth in GDP experienced in France during the 1980's could be ascribed to its membership of the EU.

Intra-regional integration commitment in Africa has been able to transform their economic and monetary cooperation into a powerful driving force for economic policy coordination. Africa's economic performance improved in 2003 with a real GDP growth rate of 3.8 compared to 3.2% in 2002. Table 4.2 below shows East Africa grew by 2.5% in 2003. According to the OECD (2006), East Africa led in economic performance between the years, 2005 to 2007 due to strong commodity demand, continued high prices, favourable rainfall, increased government investment in infrastructure, private sector development and rising FDI and tourism. This shows that regional economic integration can contribute to economic growth.¹⁴⁰

¹³⁸ R. Axelrod, *The Evolution of Cooperation* op.cit. p.204

¹³⁹ Herenkson et.al, *Regionalism versus Multilateralism*, CEPR Discussion Paper Series No. 1525, 1996

¹⁴⁰ T.Oyejide op cit. Pg 43

Table 4.2: Weighted Mean CPI Inflation for African Regions

Region	1997-2003	2004	2005(e)	2006(p)	2007(p)
Central Africa	37.9	1.5	5.3	3.2	2.8
East Africa	5.7	8.4	7.6	6.0	5.5
North Africa	3.2	4.3	5.2	4.7	4.1
Southern Africa	18.1	10.7	9.2	11.5	10.4
West Africa	8.8	9.8	12.6	6.1	5.6
TOTAL	10.2	7.5	7.9	7.3	6.6

Source: OECD 2006
(e) estimates (p) projections

Regional integration in EU seems the best model of regional integration arrangement around the world, with members showing high level of commitment to the Union on ascension. Trade in individual EU economies experienced remarkable expansion after each of the countries ascended to EU membership. This could be attributed to opened opportunities of member countries to access larger import markets. For instance, Austria's import in GDP increased from less than 40% before joining the union in 1996 to over 50% from 2000.

4.2.1 Progress in intra-African Trade

Despite an abundance of trade liberalization schemes and changes to open markets, inter-African trade remains low and undiversified. The creation of free trade areas and customs unions has occupied a large part of regional integration endeavours. Insufficient progress in unifying the regional market has harmed trade creation and expansion, particularly intra-African trade flows in East Africa. This could be attributed to the fact that East African countries produce raw

materials for which there is virtually no demand elsewhere in Africa. For instance, the EU has been the dominant market for East Africa with East Africa exporting agricultural goods worth \$550 and equivalent of 23% in 2003. In the same year, Kenya exported processed agricultural products constituting about 10% and 13.2% to Tanzania and Uganda respectively. This indicates that East African integration has been more outward looking at the expense of intra-regional trade.

Industrial cooperation in East Africa has hardly boosted production or added value. The ECA (2004) indicates that the manufacturing sector is not technologically advanced in East Africa and Public-Private partnerships are lacking in most countries. This means that the private sector plays a marginal role in the economic integration process. In recognition of these challenges, the EAC has now initiated measures to galvanize growth in industry, support intra-industry trade mainly through trade liberalization programs.

According to the study, monetary unification, which is necessary for deepening regional integration, has been slowed down by two factors in East Africa. First, there are too many competing local currencies, which are non-convertible within and across the EAC and secondly there is multiplicity of exchange rate regimes. However, there are steps that have been taken towards monetary unification.

The issue of levels of development amongst the EAC member countries cannot be ignored. Some states are still lagging behind and this makes each state want to protect its national interests. If the benefits of Economic Partnership Agreements and regional integration are not adequately conceptualized, some countries especially those that benefit from dual membership of regional integration organizations, might continue to derail the progress of deep regional integration. It is imperative to ensure that all countries adjust to economic integration.

4.2.2 General Assessment of EPAs Progress and Challenges

The EU has recognized in its EPA negotiating mandate that ‘economic and trade integration shall build on regional integration initiatives of ACP states’.¹⁴¹ The EC has consistently justified EPAs on the basis that it will improve regional integration. It claims that trade facilitation, investment measures and technical assistance through an EPA will help East African Countries overcome the barriers to trade.

The total elimination of non-tariff barriers and other administrative obstacles to trade is still a challenge from most regional organizations. The lack of clear national guidelines in some countries with regard to the implementation of the trade liberalization schemes constitutes a hindrance to intra-community trade. For instance, the East African states still apply a number of protectionist measures, which pose obstacles to the promotion of intra-community and intra-regional

¹⁴¹ see Article 35.2 and Article 37.5 of the Cotonou Agreement

trade. These measures include numerous roadblocks and customs posts between countries. The cost of goods is made expensive for intra-regional trade due to several roadblocks both legal and illegal when ferrying goods from Mombasa to Rwanda via Uganda.

The EU suggests that its presence in EAC will enhance the credibility of integration initiatives and that the incentives of financial aid and technical assistance will encourage political support for regional integration. Negotiations of EPAs have faced stiff opposition from civil society organizations and some governments in East Africa. The pace of negotiations of the liberalization of the East African markets is perceived by many to be very fast.

According to some EAC Ministers, East African countries have been heavily interdependent both in trade and shared services. Liberalization is likely to damage their economies and undermine regional integration processes because regional markets will probably be opened up to the EU before they are consolidated internally or alternatively if there were no common symbols or interest to bridge the differences in national policies.¹⁴²

This view is shared by Dame Billie Miller, the Barbados Minister of Foreign Affairs and Foreign Trade who noted:

¹⁴² see Jannik Lindbaek. International Finance Corporation, Washington DC: World Bank Group, 1998 pg

'The EC's insistence on trying to determine what is best for the ACP and how we should configure our economic space seems more than a little disingenuous. It is difficult to see how the European Commission can reconcile its current negotiating approach with the statements made by various Commission officials that it is up to ACP regions to determine the pace and priorities of their regional integration.'¹⁴³

African trade liberalization attempts have suffered from lack of credibility and policy reversals due to among other reasons lack of effective restraints on African governments. This gives room for frequent changes in trade policy.¹⁴⁴ The formation of the East African Community tries to supplement but not banish traditional trade and political relationships between the partner states.¹⁴⁵ Trade preferences can give a competitive edge and can offer opportunities but have a limited impact if the beneficiary country is not in a position to seize the opportunity.¹⁴⁶

Dependence on trade taxes constitutes a major hurdle for tariff liberalization in the region. In only 4 of the 24 countries namely Rwanda, South Africa, Tanzania and Uganda are trade taxes less than 2% of GDP. Most low-income countries are unable to replace lost trade tax revenue from other revenue sources. According to them trade liberalization is likely to create a significant fiscal gap through the

¹⁴³ see European Commission, Article SC/AN/TDP/EPA/4 March 2007

¹⁴⁴ T. Ademola Oyejide, *Regional Integration and Trade Liberalization in Sub-Saharan Africa op.cit pg 42*

¹⁴⁵ see Ali Mazrui, *Tanzania versus East Africa: Journal of Commonwealth Political Studies* (Vol 3 November, 1965)

¹⁴⁶ see, *Business Daily* Wednesday, January 30 2008 pg 18

lowering of import duties in some countries. There is fear of revenue loss, despite the conventional wisdom that free trade is good for growth and development and that trade liberalization and regional markets integration would have dynamic and long-term effects.

There are great disparities in the restrictiveness of trade regimes in the EAC. The potential for welfare losses due to trade diversion is the greatest for countries with restrictive trade regimes. Rwanda, Uganda and Tanzania have open trade regimes in the world with non-tariff barriers removed. Kenya applies 90% preferential tariff reception on imports from the other partner states. Although harmonization of fiscal and monetary policies with institutional developments of industries, capital markets, private sector, transport and communication have been developed, an agreement on uniform common external tariff becomes complicated because of the very different starting positions of harmonization. Protracted negotiations are likely to be counterproductive.¹⁴⁷

There may be conflict with tariff bindings at the WTO with agreeing on a CET. Once a CET is set, it is difficult to change and tariff bindings may get violated if the bound rates are lower than the corresponding rates under the CET. A high maximum tariff can lock in countries in the region making further liberalization difficult.¹⁴⁸ The EAC is facing tremendous difficulty on agreements on the CET

¹⁴⁷ Gavin A. Massdorp, *The Establishment of An East African Trade Regime*, Final report prepared for the Secretariat of the Commission of East African Cooperation, 1999, Durban: South Africa

¹⁴⁸ L. Hinkle and M. Schiff, *Economic Partnership Agreements between Sub-Saharan Africa and the EU : A Development Perspective*, *The World Economy*, Vol.27, No. 9 2004 pp 33

negotiations for the classification of goods since an input for one country may be a finished good for another. There is a great temptation to protect domestic industries but this serves as a highlight of the lack of commitment to true liberalization.

Lack of adequate and reliable statistics, and the difficulties encountered in the adoption of the formula for sharing revenues that would satisfy land-locked countries has often been a deterrent to the determination of total revenue collected and ensure its fair and equitable distribution. As a result, some countries have erected tariff walls contrary to the customs union commitment in order to protect their industries. The tariffs agreed upon by the EAC are as follows: primary raw materials and essential drugs 0%, intermediate goods 10% and finished goods and imports 20%.

Tanzania's industrialists have the view that imposition of 0% internal tariffs would generate trade creations and trade diversions effects in favour of Kenya. They argue that trade liberalization would affect their manufacturing industry and widen trade imbalances in the East African region. But the EAC has put in place a transitional fund to remedy this anomaly.¹⁴⁹

In some cases, EPA negotiations have splintered existing regional alignments and forced ACP countries to choose the body through which they will negotiate with

¹⁴⁹ *ibid*

the EU. The EU plans to only enter into partnership with a customs union making it technically impossible for a country to be a member of more than one customs union. Three EAC states Kenya, Tanzania and Uganda are split between SADC and COMESA groupings where Kenya and Uganda are also members of COMESA and Tanzania of SADC. Overlapping membership issues are a significant obstacle to achieving goals of regional integration. If EAC is not sufficiently integrated before it signs an FTA, the conclusion of an EPA could potentially undermine EAC's harmonization and create new barriers to intra-regional trade.

For example if Kenya chooses to liberalize wheat and maintain its tariff levels but Burundi removes all duties, traders may circumvent Kenya's restrictions by transporting cheap (possibly dumped) goods imported from the EU across the border from Burundi.¹⁵⁰

4.3 Assessment of EPAs on East African Community

The firms surveyed for purposes of this study conveyed a clear understanding of the EU-EPA negotiations with EAC. The sample included Kenya Association of Manufacturers and some ministries.¹⁵¹ The respondents felt that the push for EPAs was carried out against certain expectations such as sustaining economic growth for developed countries. African countries had become dependent on heavy bilateral and multilateral borrowing from the west in order to meet its

¹⁵⁰ C Stevens, *The EU, African and Economic Partnership Agreements* op. Cit pg 442

¹⁵¹ There are many trade organizations in all East African countries but not many would be able to participate in EPA negotiations and attribute specific effects to EAC trade.

state's demands. This borrowing was beneficial to the developed countries markets but such uproar to Africa who could not make their repayments on schedule.

According to Chweya,¹⁵² financial aid and structural adjustment programs initiated by the developed countries led to an economic crisis both in Africa and the developed countries with part of the solution being partnership between African countries and the developed countries in trade in order to raise their capacity to service external debt and overcome the debt crisis. For instance no single state in the East Africa region is economically large enough to build a strong economy but the EAC has the resources necessary for industrialization and development.¹⁵³

Secondary data confirmed that past EAC-EU trade cooperation, which was primarily built on non-reciprocal trade preferences had not delivered the results expected. Although the current trade cooperation between the two unions has granted duty free access for nearly all products, it has not prevented the increasing marginalization of the EAC in world trade. A more comprehensive approach is needed to help build new markets, strengthen trade rules, address supply side constraints and to foster product and market diversification in the EAC countries. In the event that EAC countries are unable to agree upon common exclusion lists, rigorous border controls would have to be maintained to differentiate between

¹⁵² A. Chweya, *Emerging Dimensions of Security in the IGAD Region*, in M. Mwagiru ed *African Regional Security in the Age of Globalization* (Nairobi: Heinrich Boll Foundation, 2004)

¹⁵³ *ibid*

goods originating regionally and goods originating from the EU. The imposition of these time-consuming customs procedures would reinforce barriers to intra-regional trade rather than reduce them.¹⁵⁴

Since the late 1980's, regionalism has come to be regarded in many quarters as a 'stepping stone' rather than 'stumbling block' to achieving world economic integration albeit by a more circuitous path involving an international political economy perspective.¹⁵⁵ Respondents from the Ministry of East African Community felt that the presence of both LDCs and non LDC countries within EPA negotiating groups is likely to have difficulties for regional integration initiatives.

In December 2007, the EAC became the only regional economic bloc to initial an EPA with the EU, offering at least 82 per cent market access in a phased tariff reduction.¹⁵⁶ EAC already has duty-free access to EU market for everything but arms. If it opts out of an EPA but continue with EAC regional integration process, they will still feel the effects of EU imports entering their markets via their regional neighbours.¹⁵⁷

Viner theory on customs union is supported in this study for it asserts that literature on customs union is a strange phenomenon, which unites free traders

¹⁵⁴ *ibid*

¹⁵⁵ Bhagwati, J and A. A. Panagariya, *Preferential Trading Areas and multilateralism – Strangers, Friends or Foes?* (Washington D.C.: The AEI Press, 1996) pg 19-28

¹⁵⁶ The East African, August 11-17, 2008, pg 8

¹⁵⁷ interview with Permanent Secretary David Nalo on 16th September 2008

and protectionists in the field of commercial policy and its strangeness suggests that there is something peculiar in the apparent economics of the customs union. The customs union theory is entangled in the whole free trade protection issue and it has never yet been properly disentangled.¹⁵⁸

Free trade agreements with EU pose hidden dangers for regionalism. A case in point is the signing of an EPA by Kenya through COMESA. Although the agreement did not include other members of the EAC, Uganda, Tanzania, Rwanda and Burundi, it has an impact on them. It effectively makes them de facto members. If Kenya reduces its tariffs, all the other members will be forced to reduce their tariffs on imports from the EU at the rate agreed by Kenya. Countries that choose to remain outside an EPA would only be able to prevent liberalization of their markets if they also erected barriers against their neighbours. Such barriers would ultimately negate the principle of greater regional integration.

Similar reasoning is expressed by Venebles. He shows that those members of an RIA with comparative advantage most different from the world average are most likely to lose from trade diversion, as their trade is diverted to partner countries with comparative advantage costs between theirs and the world average.¹⁵⁹ Usually one member country always loses from the formation of a regional integration arrangement relative to the pre-integration circumstances of the

¹⁵⁸ D.A. De Rosa, *Regional Trade Arrangements among Developing Countries: The ASEAN Example*, Research Report 103, (Washington D.C.: International Food Policy Research Institute, 1995) pg 41

¹⁵⁹ *ibid*

member countries or to opportunities for member countries to improve their trade and welfare under unilateral non-discriminatory trade liberalization.

Primary and secondary data of the study have shown that historically, intra-regional integration in Africa has tended to be weak, due to outward orientation of their market infrastructure. If these regional weaknesses are not addressed within the context of EPA negotiations, the conclusion of an FTA with EU risks further exacerbating the problem of 'hub and spoke'. This means the East African countries would become increasingly dependent on EU imports at the expense of regional integration. The EU (the hub) would benefit because it has free access to all markets in the ACP region while the East African countries would only have access to the hub market. This 'hub and spoke effect' increases the incentive for exporters to invest in the hub country rather than in the spokes.

De Rosa¹⁶⁰ argued that countries whose pre-union economies were quite competitive are likely to benefit from integration, because of the greater opportunity for specialization. However, the improvement of terms of trade depends on the size of the union in relation to other countries. The larger the size and greater the number of countries in the union, the greater the gains are likely to be. Although the importance of dynamic factors is appreciated, it should be noted that there is no consensus as to a single adequate model to analyze them.

¹⁶⁰ De Rosa op.cit pg 44

The issue of East African Federation has been put on the agenda of East African countries. Whilst the Treaty of the EAC had broadly spelt out the desire of the partner states to politically federate, the process to bring the federation about had not been spelt out. The treaty establishing the EAC sets out the vision of the Community to be realized in an incremental progression through the stages of a Customs Union, a Common Market, a Monetary Union and ultimately a Political federation.

Political integration quickens economic integration because it will generate higher revenues and savings through consolidating rather than duplication of efforts. This will be more equitably accessible to all citizens under the federation. It will also enable people of the federation to harness diversity for a common goal and thus minimize conflicts in the region as well as legitimize the participation of partner states in conflict management in the region wherever they occur.

President Mwai Kibaki of Kenya said that federation is a complex matter that should be adequately discussed by a broad spectrum of people because it involved important issues of sovereignty. People needed to fully understand the benefits and challenges of a political federation.¹⁶¹ President Yoweri Museveni of Uganda shares these sentiments but wants the EAC to move fast on political federation and then work backwards to full economic integration.¹⁶²

¹⁶¹ see The East African October, 17-23 2005 pg 2

¹⁶² see The East African December 1-7,2008 pg 12-13

The formation of a regional economic and political bloc is imperative for EAC's social and economic development especially at a time when the challenges of globalization called for greater cooperation between countries. Already in line is the abolition of work permit requirements by Kenya for Rwandan citizens. If this regime works for Kenya and Rwanda, then the other partners will have no choice but to follow suit ahead of the EAC summit. An EPA will act as a catalyst in streamlining and rationalizing of existing regional initiatives through trade facilitation, capacity building and technical assistance. ¹⁶³

Although the majority of people want the federation, they are skeptical about matters concerning human rights, which Tanzania has asked Kenya and Uganda to address. Policy makers did not take into consideration some historical legacies that may affect the political federation. East Africans need to recognize themselves as one and accept themselves as one.

4.3.1 Policy Co-ordination

Full success of EU-EPA implementation with EAC will require appropriate economic policies such as macroeconomic and socio-economic stability, gradual and consistent integration process and members attaching adequate value to membership into the RI arrangement. These are prerequisites for the deepening of efficient economic integration. ¹⁶⁴

¹⁶³ *ibid*

¹⁶⁴ Nehemiah K. Ng'eno et al *op.cit.* p117

There is no single policy that is sufficient on its own to ensure a favourable growth in economic integration but economies need at least a moderate degree of success in several policies in order to get the most benefit from regional integration.¹⁶⁵ These joint economic policies should, however, not be abandoned, even if they do not bring the desired results in the short-term. Firms are to engage in more direct and intense competition in order to realize the full benefits of integration.

A state's pursuit of its own interest as a priority is often at the detriment of integration. Until the members entrench the Treaty establishing the EAC at the national level, full integration of the East African Community will not be achieved. This will guard it against amendments to align it with national laws and interests of member states in accordance with international law. This will promote constitutionalism and respect for supranational institutions such as the East Africa Court of Justice, which is critical in enforcing human rights and checking abuses of power by national governments

The issue of revenue gains and losses is of major concern in East African countries because in a customs union, internal tariffs are removed for member states and a CET for non-member states is established. Both of these have a direct effect on the reduction in government revenues because these countries rely substantially on trade taxes. In most cases, custom duties and other forms of import taxes and excise and sales taxes generate the bulk of the revenue.

¹⁶⁵ *ibid* pg 26

Therefore, if members of a regional integration arrangement differ in respect of the importance they attach to trade taxes as a source of revenue, loss of revenue becomes one of the thorniest issues to deal with. The EAC members depend on agricultural imports and excise duties as a major source of revenue in varying degrees. For instance in the year 2001 according to the United Nations Conference on Trade and Development, Kenya imported 32%; Uganda 57% and Tanzania 26% worth of goods.¹⁶⁶

RIAs reduce government revenue from tariffs, directly through tariff cuts among members, and indirectly through a shift away from imports from non-members subject to tariffs. The cost of this loss depends on how easily members can switch to alternative ways of raising funds. This can be high in countries that rely on tariff revenue.

4.4 Conclusion

This study has indicated that East African countries face enormous challenges with respect to international trade because their import propensity has outrun their export potential. The fact that the five EAC countries are small, sparsely populated, contiguous and highly dependent on trade, does not automatically qualify them for economic union. It is imperative that the countries understand what the EU-EAC partnership agreement entails and how best it will serve them.

¹⁶⁶ Nehemiah Ng'eno et al op. Cit pg 28

Although economic integration in East Africa is hampered by a number of challenges including a slow process of policy harmonization, lack of human and financial resources and high poverty levels, strides have been made in trade, transport, communication, energy, free movement of people, peace and security.¹⁶⁷

From the study, it can be concluded that deep regional integration cannot be achieved by simply setting up frameworks and signing treaties. Nor can it solve all the economic problems of East Africa and Africa as a whole. It has to be supported by the member countries' commitment to implement the agreed programs. According to Assefa,¹⁶⁸ complete coordination of development plans is needed to escape from this 'equilibrium trap' in order for countries to strengthen their competition and trade effectively.

Asseff Mehretu, *Regional integration For Economic Development of Greater East Africa*, Kampala: Uganda Publishing House Ltd, 1973, pp.130-133
ibid

Chapter Five: Summary, Conclusion and Recommendation

5.0 Introduction: Summary

This Chapter provides a summary of the conclusions made in chapters' two to four. It further gives the findings of the study with reference to the hypotheses raised in chapter one and finally offers considered and other observed policy recommendations.

The research's purpose has been to analyze the impact of EPAs on regional economic integration in Africa with particular reference to the East African Community. The study examined the theoretical basis of EPAs and regional integration and analysed the current status on the implementation of the EAC Treaty as far as regional economic integration is concerned. It also identified the challenges and constraints of RIA in Africa. It outlined the benefits of economic partnerships under a RIA and thus dealt with the rationale or motivation for EAC to embark on and enhance economic integration.

5.1 Conclusion

One of the hypotheses of the study is that EPAs would promote regional integration. The EU has consistently justified EPAs on the basis that it will improve regional integration and in turn economic growth. The EU sees regional integration schemes and processes as "key instruments" for ACP countries' integration into the world economy, which should help them to strengthen their competitiveness, to save resources and increase their bargaining power. The

decision of the EAC countries to negotiate an EPA does not necessarily reflect their long-term economic and strategic interest within the region but rather their fear of being locked out in the liberalization schedule of the EU-ESA FTA when negotiating an EPA framework.¹⁶⁹

The benefits of integration are crucial for Africa as they are fundamental to the continent's development and growth. It is imperative for EAC partners to have consensus regarding what they understand by economic partnership agreements and regional economic integration, and also to define or redefine them in ways that will be of benefit to them. This leads to a deduction that in order to enhance regional integration, uniformity of membership of regional integration arrangements is essential.

In accordance with one hypothesis, EPAs may impede economic growth if the policies pursued fail to encourage interdependence and member states see very little of the equitable distribution of benefits and costs. This is likely to exhibit a lack of commitment to the regional goal of cooperation. As expected of the hypotheses the reverse is found to be true. If partners in an integration arrangement see more of the equitable distribution of resources, they are likely to get committed to entering an EPA.

¹⁶⁹ Mutharika, B.W.T, *Towards Multinational Economic Cooperation in Africa*, (New York: Praeger Publishers, 1972) pg 123

This study has further emphasized in chapter three that it is important for there to be a more harmonized and streamlined regional integration architecture in Africa, which will no doubt contribute to the African Union's success. Regional economic integration anywhere in the world has to be supported by political will and commitment by countries to implement agreed programmes, as well as the ceding of some form of sovereignty to supra-national bodies. This was examined in Chapter four, which also acknowledges that there has been progress as far as regional economic integration of the EAC is concerned and negotiations of EPAs.

This chapter has highlighted the areas in which the EAC must make changes in order for trade as a tool of regional economic integration to take place effectively. The EAC would need to diversify its economies away from current levels of dependency on primary commodities. It can therefore be concluded that EPAs through RIAs can help East African countries to overcome constraints arising from small domestic markets, allowing them to reap benefits from economies of scale, competition and foreign and domestic investment by partnering with EU.

Heavy reliance on primary agricultural goods for export outside the region has played a role in weakening economic integration and trade liberalization. It is worthy to note that movement towards sustainable fiscal deficits that exclude external grant financing have been difficult to achieve, given the relatively high donor dependence especially in Uganda and Tanzania.¹⁷⁰

The region has adopted a guideline that defines trade barriers as 'quantitative restrictions and specific limitations' that act as obstacles to trade.¹⁷¹ It has been unable to abolish some of its trade barriers inherent in carrying out business across borders. Roadblocks between borders, constraints on payments of goods and movement of persons, goods and services are issues that need to be dealt with in order to facilitate intra-regional trade. Member countries need to maintain border controls within the customs union for a CET to be effective.

Given the slow progress of deep integration in EAC, emphasis is being placed on "fast-tracking" the establishment of regional monetary unions by 2010.¹⁷² Lessons from the European Union experience include the need for a common central bank to focus on price stability as its primary objective and thus causing national fiscal compliance with this goal by all member states. There is need to empower the institutions that implement and monitor regional integration programmes if goals are to be achieved by RIAs in Africa.

Considering the massive development disparities between the EU and EAC countries, it is very questionable that an FTA has such deep effect that it can alter its economic structures in the East African region. A North-South FTA can help East African consumers and producers to benefit from cheaper imports by lowering countries' external tariffs. But these disparities can also lead to high trade imbalances, which imply higher risks of further polarization. Proponents of

¹⁷¹ A. Klug et al, *Theories of International Trade* (London: Routledge, 2006) p.10
¹⁷² *ibid*

EPAs fail to consider the gap that exists between the North and South countries. This gap is a hindrance to effective partnership of regional groups.¹⁷³ One opportunity for southern African countries to avoid such a hub-and-spoke relationship is to integrate in a South-South framework before entering into a North-South FTA.

The deduction thus makes it possible to conclude that EPAs, though not an end in themselves, can promote regional integration in East Africa. EPAs may offer the East African countries substantial potential gains from policy credibility and better-integrated regional markets as well as technical assistance. They are intended to act (within the broad framework of WTO rules) as a stepping-stone to the gradual integration of ACP countries into the world economy and to tackle the practical barriers to trade among inter and intra-regional arrangements.

In conclusion, it should be emphasized that no single state in East Africa region is large enough to build a modern economy alone but the East Africa Community as a whole has the resources necessary for industrialization and development. There is need for political will and commitment to ensure that EAC can effectively pursue its objectives in the greater interest of promoting trade. The postulation therefore is that the EAC customs union provides a well-established consultative forum, which will be responsible for EAC to trade well in the world market and will be a main pillar for future cooperation and integration.

¹⁷³ Africa in the World Economy op.cit pg 19

5.2 Recommendations

This section will concentrate on the recommendations that will assist in enhancing economic partnership agreements through regional integration, given the challenges, opportunities and progress that East African Community has already made in this regard. If effectively implemented, they are likely to result in proper set structures of the regional integration process.

The EAC currently referred to as the East African Community Customs Union (EACCU) needs to fast track its political federation for economic cooperation to be effectively implemented. This is likely to result in proper set structures of the regional integration process. A robust agenda and review of most treaties is needed. Focus of regional integration in Africa should re-orient itself to the enhancement of economic growth through stable and sound national macroeconomic policies and rapid accumulation of human and physical capital.

Due to shortcomings of the standard trade theories especially the static theory of regional arrangements, it is recommended that an international strategy be formulated, which will provide guidance to regional integration arrangements that are welfare improving.¹⁷⁴ Robson¹⁷⁵ asserts that trade policy coherence and reforms should be accompanied by other economic measures such as appropriate laws, infrastructure and institutions.

¹⁷⁴ The static theory of regional integration arrangements has mainly failed to date to yield broad or universal guidelines for policy making.

¹⁷⁵ P. Robson, *The Economics of International Integration*, (London: Unwin Hyman, 1987) pg

A paradigm shift towards regional planning is essential in uniting regional resources, market and capital in a single substantial economic unit. The current multiplicity and overlapping of the RIAs undermines the goals of Africa's blueprint for integration. Priority should be given on the establishment of fully-fledged free trade areas and customs unions. This will assist in minimizing costs, enhance development through larger markets and economies of scale, competency and growth. Trade is a key driver of economic growth and without growth, the EAC cannot make substantial progress in its development.

It is futile to expect constructive policies if systems and structures are not well placed and if the implications of policies are not well perceived by member states. Respective governments or member states have the mandate to construct development projects in their own countries. EAC should harmonize its policy reforms before embarking on an EPA so that regional integration and economic development are enhanced through modern technology in the manufacturing sectors.¹⁷⁶

The great diversity in terms of country sizes, national resources and levels of development have been a major stumbling block to successful RIA in Africa. This disparity could be used to its advantage. Countries with low resources should refrain from the use of combined efforts to counterbalance the initiative of mistaking more resourceful countries for excessive power or hegemony.

¹⁷⁶ D. Mazzeo, Problems of Regional Cooperation in East Africa in C.P. Patholm and R.A. Fredland, *Integration or Disintegration in East Africa* (University Press of America, 1980) pg 42

Diversification of an economy is necessary in order to minimize the impact of trade shocks on an economy and increase the benefits of trade reforms. The EAC needs to give a lot of attention to industrialization, an area that has been neglected despite its importance.

Economists such as Krugman¹⁷⁷ argue that a system of compensation that is effective, sustainable and properly funded can address issues arising from trade liberalization, such as loss of income, injustice and disparities. But encouraging companies to be more competitive is a better approach than having countries dependable on compensation monies that would slacken their efforts.

There is need to create follow-up mechanisms to ensure respect for agreed Community timetables on issues such as tariff and non-tariff barriers. The EAC should be able to sanction indifferent performance or failures in order to fulfill commitments to protocols and treaties. Although treaties can be revisited and improved in light of new developments, the core issue is the leadership that guides the implementation of this framework.

EPAS are unstoppable because the whole world conforms to trends in line with development. The benefits of EPAs and indeed regional integration remain a critical part of Africa's workable development strategy. The era of isolated tiny national economies has to give way to strategic alliances that harness knowledge

¹⁷⁷ Krugman, op, cit pg 243

and resource based comparative advantages through integration and partnership. However that does not come effortlessly and at no cost: a lot of dedicated planning and hard work must be put in place.

5.3 Areas of further research

A number of questions remain unanswered with reference to EPAs and regional integration in Africa. For instance one area of further research is:

1. Whether it will be possible to implement the EPAs fully and whether EPAs will be able to solve Africa's problems. It is also important to know how foreign policies impact on regional integration in Africa.
2. The implication of AID or donor funding on integration
3. The prospects and challenges of multilateral trade on regional integration.

While regional economic communities have adopted policies to create free trade areas and customs unions, they seem to be equally mindful of the potential of multilateralism. Proponents of Strategic Trade Theory see multilateral trade as a means of ensuring that a nation's industries remain competitive.

While increasing intra-Africa trade, East African countries must increase their minute share of global trade by trading more with the outside world and with itself. This is yet another area of study that should be pursued.

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Questionnaire

1. What is your name: _____
2. What is your main area of work?
 - () Government
 - () Academic or research
 - () International organization
 - () Non-governmental organization
3. Which countries are the current members of EAC
4. When and why was EAC formed
5. What are the specific objectives of EAC
6. What are some of the notable achievements of EAC
7. What holds the EAC together
8. What are the other measures introduced in order to facilitate trade
9. Does the EAC Treaty provide for the protection of industries that might be negatively impacted by the implementation of a free trade area given the different levels of development in member states
10. Are the goals of EAC consistent with those of WTO
11. What are some of the potential benefits of regional integration under the EAC arrangement
12. In the recent past, Kenya entered into negotiation with EU under COMESA. In your opinion, was Kenya justified in entering in this negotiations and leaving out the other EAC members?
13. Did Kenya undermine regional integration by doing so?
14. Is Tanzania justified in entering EPA negotiations under SADC?
15. In your opinion does multiple membership affect regional integration in Africa?
16. In your opinion do you think EAC will attain a political federation by 2015 as envisaged and why?
17. What are the Costs of political federation
18. Can EPAs enhance regional integration and why?